

UNEMPLOYMENT INSURANCE

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

H. R. 7659

MARCH 21 TO 30, 1934



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UNEMPLOYMENT INSURANCE

WEDNESDAY, MARCH 21, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The subcommittee of the Committee on Ways and Means met at 10 a.m., Hon. David J. Lewis (chairman) presiding.
(The bill under consideration was H.R. 7659, which is as follows:)

[H.R. 7659, 73d Cong., 2d sess.]

A BILL To raise revenue by levying an excise tax upon employers, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

DEFINITIONS

SECTION 1. When used in this Act the term—

"Employer" shall mean any person, partnership, association, corporation, or the legal representative, trustee in bankruptcy, receiver, or trustee thereof, or the legal representative of a deceased person, who or whose agent or predecessor in interest has, within each of twenty or more calendar weeks in the taxable year, employed at least ten persons in employment subject to this Act, except that the term "employer" shall not include the Federal Government, the governments of the several States, municipal corporations, or other governmental instrumentalities. In determining whether an employer employs enough persons to be an employer subject hereto, and in determining for what tax he is liable hereunder, he shall, whenever he contracts with any subcontractor for any work which is part of his usual trade, occupation, profession, or business, be deemed to employ all persons employed by such subcontractor on such work, and he alone shall be liable for the tax measured by wages paid to such persons for such work; except as any such subcontractor who would, in the absence of the foregoing provision, be liable to pay said tax, accepts exclusive liability for said tax under an agreement with such employer made pursuant to regulations promulgated by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

"Employment" shall mean any employment in which all or the greater part of the person's work is, or was, performed within the continental United States under any contract of hire, oral or written, express or implied, whether such person was hired and paid directly by the employer or through any other person employed by the employer, provided the employer had actual or constructive knowledge of such contract; except that for the purposes of this Act it shall not include—

- (1) employment as an agricultural laborer;
- (2) employment in the domestic service of any family or person at his home;
- (3) employment as a teacher in any school, college, or university for the regular annual term for which such school, college, or university is in session;
- (4) employment as a physician, surgeon, interne, or nurse in a hospital, sanatorium, or other similar private-endowed institution not operated for profit;
- (5) employment of a physically handicapped person by an institution financed largely by charitable donations and organized not for profit but primarily for the relief and rehabilitation of such handicapped persons;
- (6) employment of the father, mother, spouse, or minor child of the employer;

(7) employment in the service of a common carrier subject to the provisions of the Emergency Railroad Transportation Act of 1933 (48 Stat. 211);

(8) any employment for which unemployment compensation shall have been provided directly by Act of Congress.

"Pay roll" shall mean the total amount of all wages paid by the employer during the taxable year to persons employed by him in employment subject to this Act; except that pay roll shall not include the wages paid to a person employed by the employer within such year on a minimum fixed salary basis of \$250 or more for each month in which the person was thus employed.

"Wages" shall mean every form of remuneration for employment received by a person from his employer, whether paid directly or indirectly by the employer, including salaries, commissions, bonuses, and the reasonable money value of board, rent, housing, lodging, payments in kind, and similar advantages.

"State law" shall mean a statute enacted by any one of the several States, providing for systematic compensation and the creation of an unemployment fund or funds.

"Contributions" shall mean the amount which the employer has paid for the taxable year to any unemployment fund to which he is required to contribute by or pursuant to a State law, but shall not include any amounts deducted from wages or contributed by employees.

"Unemployment fund" shall mean any unemployment compensation fund or reserve, or unemployment insurance fund or reserve, or guaranteed employment fund or reserve, to which the employer contributes pursuant to a State law, whether or not under such law other employers contribute to the same fund or reserve or to different or separate funds or reserves, and whether or not under such law the State and/or employees contribute to or supplement such fund or reserve: *Provided*, That such fund or reserve is available solely for the payment of compensation and of any State administrative costs chargeable thereto under the State law.

"Compensation" shall mean the cash benefits payable under a compulsory State law to employees for their unemployment; and shall also be deemed to include, as to any guaranteed employment plan complying with a State law, the wages guaranteed and payable to employees for certain workless hours under such plan.

"Employee", as used in this Act, shall mean any employed person who is covered by a State law and/or may become eligible for compensation thereunder.

"State agency" shall mean the State labor department or other governmental agency designated or created under a State law to administer such law.

"Tax" shall mean the gross tax imposed on the employer for the taxable year under subsection (a) of section 2 of this Act.

IMPOSITION OF TAX; ALLOWABLE CREDITS

SEC. 2. (a) There shall be levied, assessed, and collected annually from every employer subject to this Act, for the taxable year commencing July 1, 1935, and for each taxable year thereafter, an excise tax measured by an amount equal to 5 per centum of the employer's pay roll as defined in section 1 of this Act: *Provided* That said tax shall be paid after the close of each taxable year and may be paid in quarterly installments, under suitable regulations promulgated by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

(b) Any employer who has paid the contributions required of him under a State law duly certified under section 3 of this Act may credit against the tax thus due the total of the two following amounts:

(1) The amount of contributions which he has actually paid during the taxable year under such State law; and

(2) The amount by which these paid contributions were less than his largest required contributions under such law in any previous taxable year: *Provided*, That—

(a) the amount thus determined shall, before being credited against tax, be reduced by the same percentage by which the employer's pay roll is less than his pay roll in such previous taxable year;

(b) the employer's required contribution rate for the taxable year is less than the comparable rate for such previous taxable year, and that such reduction was permitted pursuant to provisions of such State law not inconsistent with subsection (f) of section 3 of this Act; and

(c) the additional credit permitted under this subsection shall not be allowed an employer except where the unemployment fund to which such employer contributes under such State law has paid in full throughout the taxable year

the compensation required under such law to be paid by such fund, without any reduction of compensation payments within the taxable year due to the inadequacy of such fund.

CONDITIONS FOR CREDIT ALLOWANCE

SEC. 3. No credit specified in section 2 of this Act shall be allowed for contributions under a State law, unless the Secretary of Labor has made a finding of fact within the taxable year that such State law conforms to the standards and conditions enumerated in subsections (a) to (j) inclusive of this section and has certified such State law to the Secretary of the Treasury. Annually, before the end of the taxable year, the Secretary of Labor shall state and determine whether or not each State law conforms to said standards and conditions, and shall certify to the Secretary of the Treasury each State law which—

(a) provides for the systematic payment, to all unemployed persons eligible under such law, of cash compensation which shall be payable to them as a matter of right: *Provided*, That compensation rights and payments shall commence not more than twelve months after contributions begin under such law;

(b) specifies the eligibility conditions which shall apply to the payment of compensation, including any uncompensated waiting period to be applied thereto, but does not require of any employee a probationary service period prior to benefit eligibility aggregating more than ten calendar weeks of employment by any new employer; and provides for total unemployment benefits at a minimum rate which shall equal or exceed either \$7 per week, or else the employee's average wage earnings for 20 hours of work; and provides for partial benefits at least equaling the amount by which the eligible employee's total benefits exceed his reduced wage earnings; and provides that the legal liability of such unemployment fund to pay compensation shall be limited at all times to the resources of such fund, including any contributions due or unpaid;

(c) either permits all eligible employees to receive ten or more full weeks of compensation within a year or less; or else adjusts the duration of compensation to employees in a direct and substantially uniform ratio to their employment within not more than the five years preceding their compensable unemployment, making at least some employees eligible to receive fifteen or more full weeks of compensation within a year or less;

(d) provides that compensation cannot be assigned or garnisheed, and that no agreement by an employee to waive or reduce his right to compensation or any other right under such law shall be valid;

(e) provides specifically that no otherwise eligible employee shall be barred from or denied compensation for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant due directly to a strike, lockout, or other labor dispute; (2) if the wages, hours, and other conditions of the work offered are substantially less favorable to the employee than those prevailing for similar work in the locality; (3) if acceptance of such employment would either require the employee to join a company union or would interfere with his joining or retaining membership in any bona fide labor organization.

(f) requires from all employers subject thereto regular contributions, at a uniform rate applicable to all such employers for at least twelve months after commencement of contributions under such law, and also thereafter unless such law permits the rate of contributions subsequently to be reduced in respect to some but not all employers subject thereto, such reduction being in accordance with classification standards or other provisions designed to adjust the contributions of employers in accordance with the compensation experience of such employers and/or of the unemployment fund or funds to which they contribute: *Provided*, That no employer's contribution rate shall be reduced, unless the unemployment fund to which he contributes under such State law has paid in full throughout the preceding year the compensation required to be paid by such fund, and no reduction of compensation payments has been made within such preceding year due to the inadequacy of such fund;

(g) in case it permits an employer to guarantee work or wages to his employees; requires such employer to contribute, at the rate otherwise applicable to him under such law, to an unemployment fund from which he shall pay in whole or in part the compensation promised for guaranteed but workless hours and in addition, to any employee whose guaranty is not renewed, at least half the benefits otherwise payable to the employee under such law: *Provided*, That such employer's contribution rate may under such law be reduced consistently with the provisions of subsection (f) of this section;

(h) prohibits every employer subject thereto from directly or indirectly insuring his liability to pay compensation in any private insurance company organized or operated for profit;

(i) provides that every unemployment fund required thereunder shall either be held by an officer or agency of the State acting as custodian, or shall be held strictly in trust under such conditions approved by the State agency as will in its judgment assure the safety and liquid availability of such unemployment fund or funds: *Provided*, That where any law permits an employer of demonstrated financial strength to contribute to an unemployment fund in the form of an accounting reserve, such law shall require such employer to maintain with the State such a collateral deposit of securities approved by the State agency as shall at all times have a market value at least equal to the current total of such permitted unemployment fund or reserve; and

(j) provides for administration or supervision by a State agency, and provides adequate funds to finance administration and suitable penalties to secure enforcement of the law's provisions; and secures to each party in interest a right to the hearing and determination of any disputed compensation claim by an impartial administrative agency authorized by such law to decide such claims and to determine finally all questions of fact involved therein; and assures to employers and employees, through representation on advisory committees, an effective voice in the law's administration.

ADMINISTRATION; REFUNDS; AND PENALTIES

SEC. 4. (a) The Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, shall prescribe and publish all needful rules and regulations for the enforcement of the provisions of this Act.

(b) Every employer liable for tax under this Act shall make a return under oath within one month after the close of the year with respect to which such tax is imposed to the collector of internal revenue for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector of internal revenue at Baltimore, Maryland. Such return shall contain such information and be made in such manner as the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury may by regulations prescribe. The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector within one month after the close of the year with respect to which the tax is imposed. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 per centum a month from the time when the tax became due until paid. All provisions of law (including penalties) applicable in respect of the taxes imposed by section 600 of the Revenue Act of 1926 shall, insofar as not inconsistent with this Act, be applicable in respect of the tax imposed by this Act. The Commissioner may extend the time for filing the return of the tax imposed by this Act, under such rules and regulations as he may prescribe with the approval of the Secretary of the Treasury, but no such extension shall be for more than sixty days.

(c) Returns required to be filed for the purpose of the tax imposed by this Act shall be open to inspection in the same manner, to the same extent, and subject to the same provisions of law as returns made under title II of the Revenue Act of 1926.

(d) The taxpayer may elect to pay the tax in four equal installments, in which case the first installment shall be paid on the date prescribed for the filing of returns, the second installment shall be paid on or before the last day of the third month, the third installment on or before the last day of the sixth month, and the fourth installment on or before the last day of the ninth month, after such date. If any installment is not paid on or before the date fixed for its payment, the whole amount of the tax unpaid shall be paid upon notice and demand from the collector.

(e) At the request of the taxpayer the time for payment of any initial installment of the amount determined as the tax by the taxpayer may be extended under regulations prescribed by the Commissioner, with the approval of the Secretary, for a period not to exceed six months from the date prescribed for the payment of such installment. In such case the amount in respect of which the extension is granted shall be paid (with interest at the rate of one half of 1 per centum per month) on or before the date of the expiration of the period of the extension.

SEPARABILITY

SEC. 5. If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

Mr. LEWIS. Ladies and gentlemen, the subcommittee of the Ways and Means Committee has been selected to hear those who have information to give, and to consider bill H.R. 7659, introduced in the Senate by Senator Wagner, and in the House by myself, and popularly known as the Wagner-Lewis unemployment insurance bill. We are honored this morning by the presence of the Secretary of Labor, and I will ask Miss Perkins to present her views on this matter if she will kindly do so.

**STATEMENT OF HON. FRANCES PERKINS, SECRETARY OF THE
UNITED STATES DEPARTMENT OF LABOR**

Secretary PERKINS. Mr. Chairman and members of the committee, I am very glad to have this opportunity to appear before you with regard to the bill which is known as House bill 7659, a bill to raise revenue by levying an excise tax upon the employers of labor, and for other purposes. The bill is, of course, fundamentally a tax bill. It imposes an excise tax which is to be paid by employers of labor, but it allows them to offset against the tax whatever amount they may contribute to unemployment reserves or an unemployment insurance system set up under any compulsory State laws of the States in which they operate their particular plants or factories. A tax of 5 percent upon pay rolls of employers is to be paid by employers of 10 or more employees, and there is an exemption which you probably have observed, for all employers of agricultural labor, employees in domestic service, employment of teachers in schools and colleges, and employment of physicians and nurses in hospitals. These exemptions, I might say, are exemptions which correspond with and which are in line with the general systems of labor legislation in the various States.

This tax upon the pay rolls of all employers will be a profitable tax and it is a fair tax. It is profitable because it would produce, so near as we can estimate, and we have been making for the last few weeks various estimates of the number of persons covered by this and of the amount of revenue which would be produced, approximately \$1,000,000,000 a year of revenue to the United States Government. Those of us who have observed the vast expenditures for unemployment relief in the last few years in this serious economic depression through which we have been passing, most certainly have recognized the necessity of collecting some special form of tax which would be a kind of reimbursement, but a kind of reimbursement for the expenditures for the relief of unemployed persons which have been made necessary by the devastating economic depression. Undoubtedly we shall go through other depressions, though we hope not so deep or drastic. It is characteristic of the competitive capitalistic system, and has been since the beginning of that system, that there are periods of what are known as periods of overproduction, and what we call periods of unbalanced consumption; and it is also a characteristic of it that in those periods there is a marked decline in the profitable sale and the profitable manufacture of various types of goods and

also in the consumption of those goods, and that there results a gradual closing down of the enterprise for the production of these goods and a resulting laying off of the persons who would primarily look to that industry as a place to sell their labor, as their way of making a livelihood. It is a characteristic of this system, and it is unfortunate that it is so.

Perhaps we can find ways to prevent it, but at least no one has yet found a perfect, bona fide foolproof method of preventing this type of depression. Moreover, there are even in good times a great variety of forces operating which cause temporary slackening in production, and which cause maladjustment or lack of adjustment between production and consumption, and which cause a very marked degree of unemployment in years which are really thought of as good years—that is, years of relatively good business conditions and relatively high prices. There are in those years, as you know, certain factors operating like seasonal operation in the industry itself, in which there is a peak of employment for 1 or 2 months, and then either a falling off in employment, or frequently a closing down of the plant in other months. I do not need to recall to your minds the types of industry in which this is common, such as all of the industries dealing with the preservation of food and food products, which are dependent upon the weather and seasons. This is characteristic also of those industries which show an element of style in them, and, unfortunately, the element of style is entering into a great variety of industries which formerly had no style element. This in itself induces a seasonal effect, a fluctuation, although it has its advantages, in that it undoubtedly increases the opportunity for the total production, and an outlet of the total production of that industry within a 5-year period.

There are also, of course, always unemployment situations attendant upon bankruptcies, and attendant upon the financial variations in the status of the employer. There is also unemployment attendant upon the geographical shifting of industry, which takes place gradually, and due to forces which none of us sitting here today can possibly foresee. An industry moves to a place of greater efficiency, or a place of greater convenience, either for transportation or on account of proximity to raw materials or climatic conditions, or a great variety of causes. In that shift many of the employees are left behind, and there is a considerable period of unadjustment for them, and of lack of work, and of lack of any opportunity to find the work to which they have been accustomed.

All of us are familiar with the fact that there are in every decade certain industries, and as we look back they were not what we would call decaying industries at the time, we did not recognize them as decaying industries, we merely knew that for some reason business was not so good in that particular industry, and it is only after that time has passed that we recognized that that was an industry which was really passing out of the picture. A substitute, perhaps, for the function which that product has filled in human life has been devised and is continuing to be used, but in that period there is a transition, and the workmen do not go automatically, we will say, from the wagon plant to the automobile factory. You have, and of course, all of us have, seen the decline of harness making and wagon making as an industry. They were decaying industries.

We know that over a 10-year period more people are employed in the manufacture and servicing of automobiles than were employed in the wagon-making and the harness-making industries. Nevertheless, in that period of transition, the individual workmen, John Jones and Sam Smith did not find their way directly from the harness shop and the wagon shop into the automobile factory and the service station which replaced the shops. There is an example of that dislocation and that maladjustment out of which grow social distress.

In addition to that, there are technological changes in industry itself, in addition to the various types of mass-production enterprises and of labor-saving machinery, which have the result of putting a certain number of men out of work. These are very, very dramatic, and have been much more discussed before the public and probably before you gentlemen than all of the other causes of unemployment. Nevertheless, the other causes operate efficiently, and more continuously than do the technological machine changes, which also cause their full toll of unemployment, and which are in such status today that we might look forward to their continuing operation as a great cause of unemployment in the manufacturing industries.

Now, I do not wish to be thought of as saying that there is no hope for those who have been laid off by technological changes in the manufacturing industries. There has sprung up, as you know, a very great amount of employment in the servicing of enterprises in the types of occupation and employment which grow naturally out of taking care of the various things that are produced by mass production or by labor-saving machinery. Nevertheless, there are long periods of maladjustment for the individuals, for our fellow citizens who have earned their livelihood by selling their labor to a particular industry in a particular location, which due to technological changes either goes somewhere else or is completely transformed in its methods, and therefore offers them no particular and immediate opportunity for employment. Often months as well as years elapse before they find their replacement in the industrial life, and into the employment life of our total community. Therefore I point out to you that this tax upon the employers is a fair tax, because out of the enterprise through which they make their living—and they make their living very honorably by the profit of these enterprises—inevitably out of the profit of these enterprises there flow these adverse social situations which are adverse to substantial groups of our fellow citizens, that is, to those groups who make their living by selling their labor to the very enterprises out of which others make their living. In these inevitable changes which come about, it is necessary and wise that we impose a tax at the source of the difficulty which makes it necessary for State and Federal Governments and for the taxpayers generally to make enormous contributions to the maintenance of our fellow citizens, who through no fault of their own are deprived of their ordinary mode of making a living for a longer or a shorter period of time.

I do not wish to be thought of as indicating that their long period of unemployment is necessarily prolonged and eternal, and that this must be supported at the expense of the taxpayers, but, rather, that there should be an equitable imposition of a tax at the point of origin where it can be collected fairly and systematically. There is justice in collecting it from the source which is in itself part of the cause of

the social adversity which causes enormous contributions from the treasury of the States and of the Federal Government for the maintenance of the people who are adversely affected.

I have said we have estimated that the revenues which could be produced by imposing the tax which is proposed by this bill, which is 5 percent of the payrolls of all employers employing 10 or more persons would be in the neighborhood of \$1,000,000,000. That is a very substantial reimbursement of the amount of relief which is necessary at any time when the Federal Government must step in and make appropriations to make possible the relief of citizens who are in distress because of this depression and unemployment, which is characteristic of the economic situation out of which we have found so much growth and so much advantage in this country, and to which we are committed.

It is fair that the employers of labor in general should be called upon as a group to help pay this huge expense of the taxpayers generally in taking care of citizens whom the employers themselves have dismissed frequently without any thought or without any sense of responsibility for their future.

It is of course only in the last 10 years that we have become socially conscious enough to have really taxed the employers of this country with a sense of responsibility for the future of the people who work for them and sell them their labor for wages, but at the present time we are fully aware of this, and it is therefore right and proper that we should assess a tax at that particular point and expect them to make a very large contribution, a substantial contribution for reimbursement for such social dislocation that comes about because of the variety of causes which cause unemployment in their industries.

In the past, as you know, it has been customary to permit the full risk of unemployment to be borne by the individual worker himself. Probably the individual in our community who is least able to take such an enormous risk, has been expected to bear the whole risk and to make total provision for seeing himself through the periods of depression and unemployment which he could not possibly foresee, and for the control of which he had not the slightest responsibility, nor the slightest opportunity to take any precautions or to take any preventive measures. The most that he could do was to save out of the fairly meager wages he received a sufficient amount each week to provide for himself and his family, to worry through the period of unemployment which he could not foresee. At the same time we have been building up a mass-production system in this country able to produce an enormous number of units at a fairly low cost, and the market for these very units, for these very items of commerce has been increasingly a wage-earner market.

We have expected and anticipated that our working people should purchase liberally of the various things which our manufacturers provide for our working people, who, after all, represent almost half of our total population. If they do not buy the products of our mass-production industries there is a very definite limit on the amount of the products of that industry which we can sell. Therefore, our mass-production industry depends upon the purchasing power, and depend upon the willingness of our wage-earning people to purchase not only

clothing and food and shelter but equipment of all sorts, tools of all sorts, radios, automobiles, silk stockings, and luxuries.

In other words, our whole mass-production system is geared to and dependent upon, and the products from it are dependent upon the consistent and considerable purchasing of the products of these industries by the wage-earnings groups themselves. If our wage earners adopt the habit of saving a very substantial amount of their weekly earnings they will not be in the market for the purchase of those very items which they must purchase if the great industries are to be successful in selling their tremendous output. Therefore, we have been asking the individual wage earner both to purchase liberally the products of our mass-production industries, and at the same time thriftily to take care of himself and of his family through quite prolonged periods of depression. That is manifestly impossible. Whenever we have had a period of depression or a period of unemployment that lasted over a very few months we have seen at once that the public as a whole had to step in, and either through private charitable relief or through public relief take care of the wreckage that came to individual families because the wage earners in those families were laid off from the work to which they were accustomed. There was not a sufficient reserve there, and it had not been possible to accumulate reserves to build up savings that would carry the family over a relatively short period of depression. It has been the custom, as I said, to rely upon the individual wage earner alone to make provision against this major hazard, this major risk of a mass-production machine system.

I think our attention ought to be called to the fact that even in the best years those workers who had regular work averaged only about \$1,300 per year income in many industries, even those that have a high hourly rate of wages, due to the very nature of the employment. The annual earnings of even the high paid building workers will frequently not average more than \$1,000 to \$1,100 a year.

In the very best years some of them averaged as much as \$1,500 a year, and that was in trades where the hourly rates are regarded as extremely high, but what you really have to live on, as you all know only too well is not your hourly rate of wages multiplied by the possible number of hours you could work per year. What you have to live on is what you actually get in the way of hours worked per year, and that in the United States in general has averaged in the building trades not over \$1,400 to \$1,500 a year in the very best years, in the highest paid building trades. So that, for the individual to make ample provision, particularly in our great cities where costs are so high, for prolonged periods of depression where there has been no work for some people in those very trades for 2 or 3 years at a time, is manifestly an impossibility.

We have had to rely, and have apparently in our good hearted American way relied from the very beginning upon private charity, upon, first, contributions under great stimulus of charitable drives, to take care of people who were laid off, and secondly upon various forms of public relief, local, municipal, and county relief, and local State relief, and finally recognizing the impossibility of even our well organized and well financed municipalities to deal with it and carry the total burden, have called upon the Federal Government for contributions for relief, which has run into astonishing figures. All those

who come, as you do, from districts where you are close to the people themselves have recognized in the last few years the absolute necessity for maintaining our population, for standing by our fellow citizens, these extraordinarily fine and well disciplined fellow citizens in a period of distress, which bore with an unequal burden upon various types, upon various members of our population.

There has been a general tendency toward the view that the public should pay. Nevertheless, in all fairness, some part of this burden in the future, must fall upon the employers, those to whom those workers ordinarily look for jobs, for security, and sympathy, and steady purchasing power. The technique of stabilization of industry is by no means perfect, but there is, nevertheless, a growing body of experience among certain types of employers who are in industries where those techniques are possible, which indicates that at least in some industries most of the unemployment has been more or less unnecessary and that by the right kind of cautious and careful planning a very large degree of the instability of the industry and therefore of the tendency toward unemployment of our fellow citizens who sell their labor to that industry, could be prevented. There are, as you know, a number of conscientious and thoughtful employers in this country who have taken steps to stabilize their industries and who have had even in these years of bad times a very considerable degree of success in preventing unemployment in their particular industries.

Now, I know that this cannot be done by every employer in every industry. Nevertheless the opportunity to do it is open to every employer, an opportunity to study business conditions and to make some progress is open to every employer, and insofar as the tax imposes upon him a part of this particular burden of reimbursing the Federal Government for the expenditures which it must inevitably make now and in the future for the cost of unemployment, the influence upon him of this tax will be in the direction of stimulating his mind to think of ways of bringing about a degree of stabilization, and therefore a lessening of the total cost of unemployment.

There are certain objections which have been raised to the imposition of this tax at this time. These are on the whole general objections and I think are not serious.

It has been said by some that the tax will impede recovery, but I want to point out to you that the first collection of the tax is not to be made until July 1, 1936. In other words, there is a long period between the passage of this bill and the first collection of the tax. Part of that delay, of course, is necessary in order to make it possible for the various States to take advantage of, or to take proper action on this bill, in order that offsets may be fairly established. It is also necessary in order to give notice to industry, ample notice of the preparation which they must make.

It is highly important, as we now appear to be coming out of the depression, and I wish to underscore the word "appear", for no human being can predict exactly what our progress during this next year or two will be—but we do appear to be coming out of the depression, and it is highly important that when we are on the up-turn we begin the collection of the funds in the various States out of which the costs of unemployment may be paid in the future. It would be most disadvantageous for the various States to have tried to collect the funds at the very period when unemployment was increasing and

business was going down. The time to collect these funds is when business is going up, and when employment is going up, and then you are sure of having on hand a considerable undepleted fund at the time when the next depression begins, and you are all aware that we have had over a period of many years a fairly regular cycle of 7 years; that is, that about every seventh year in American business life there is a period of depression.

It is not so severe, perhaps, as the depression through which we have gone, but there is what is known as a "minor depression" and the major depressions have come about once every 20 years.

Since nothing has been done to change the apparent inclination to that particular cycle, we therefore look forward to a period of up-building to a peak, and then a slight decline. We must be prepared with funds in most of the States to see us through the next depression. Therefore the collection of the tax in 1936 would be about the right time, be a fair time, sufficient warning having been given, and it would appear to fall just about the time when industry was in the best position to begin the payment of this particular tax.

Some have said that the rate of 5 percent which is the rate of tax indicated was too large. As to that, of course, I am perfectly free to say, and I think I should say to you that the selection of 5 percent is a selection made on the basis of rather inadequate knowledge as to exactly what the proper rate should be in order to enable the Federal Government to bear the burden of paying for relief measures in the future.

Studies in several of the States, notably Massachusetts and Ohio, where studies have been made on this subject, have indicated that about 5 percent of the pay roll of any of these industrial States ought to be adequate to meet the cost of providing unemployment reserves or unemployment insurance in that particular State.

I think it is fair for the Federal Government to impose a tax in the same amount. If it were applied to an unemployment insurance fund in the particular State it would have the effect of building up a fund adequate to meet all of the demands and drains upon the fund for the payment of unemployment insurance.

Five percent of the pay roll is, after all, only about 1 percent of the selling price, the wholesale price of any article which is manufactured, so that the effect upon the general circulation of merchandise would be infinitesimal, and yet the benefits in maintaining the purchasing power of our people if the proper laws are passed in the States would be almost immeasurable. This tax would not diminish pay rolls or diminish employment, as there would be no competitive gains between States or between employers in various States from decreasing the pay roll. This tax is imposed upon practically everyone who employs any considerable number of persons. It also has the great advantage of being imposed upon employers in States where they have no offset because of an unemployment insurance system as well as upon those in which they have that offset. In the States where they have an offset due to contributions to a compulsory unemployment insurance fund or an unemployment benefit fund, the only tax which they pay to the Federal Government is the difference between that contribution to the compulsory unemployment insurance fund of their State and the 5 percent which the Federal Government takes, but it does not leave those employers in the States who

set up an unemployment insurance fund at a competitive disadvantage with those in States where the State for some reason or other has not seen fit to set up such a compulsory insurance fund or reserve. You therefore overcome what has been the principal difficulty in much of our progress toward providing unemployment insurance in this country, the fact that there was a difference in the competitive cost between States which compete in the manufacture of the same type of article.

This bill admirably overcomes that competitive advantage, and it does not put the burden upon the employer in the State which has been socially far-sighted and made provision for its own unemployment, it keeps him from being put at a disadvantage as compared with his competitors in other States. That, I think, is of tremendous value to the further development and to the further equalization of the burdens of American industry.

The cost of this tax would be passed on almost painlessly by a very minute rise in prices, and by very minute changes in the rate of profit to the particular industry and in the rate of dividends. Careful planning by the employer himself will, as you have undoubtedly recognized, result in the stabilization of a very large part of the business of this country. For instance, the offsets against this tax are, of course, in themselves extremely important. An employer will be allowed to offset against the tax any amount he contributes to a State unemployment fund or to individual reserves which are approved and administered in conformity to a State law. This offset is a credit and not a refund, as you have probably noticed.

This, I think, is an extremely important item, the technique by which the States are permitted to develop the kind of a law with regard to the provision of funds against unemployment, the kind of a law which is effective for them, the kind of a law which is sympathetic to their people, the kind of a law which they are prepared to administer, and the kind of a law which their own common sense tells them is the best way for the people of that particular State to provide against the great cost to the public of unemployment.

I am particularly interested in this bill because of the fact that it does furnish this provision and this opportunity for perfect freedom of the States in developing their laws and yet at the same time equalizes the competitive cost between the States and puts the Federal Government in exactly the appropriate relation to the States, not dictating their laws, not determining their laws, but merely recognizing that their laws are in effect, that they are honest, that the funds are honestly cared for, and that the payments are in conformity with the general provisions which any genuine law of this kind must have.

A great part of the tax would help to pay off unemployment relief in all parts of the country and provide against future relief.

The standards which the State laws must meet are laid down in the law. They are of course minimum standards. We cannot allow the employers to escape the tax unless they are contributing to reserves that will really benefit those that are out of work. Therefore, the compulsory State law under which the contributions are made must meet certain minimum requirements. This bill, which is the foundation, recites these minimum requirements rather well.

First, there must be regular contributions on the part of the employers, and there must be a regular weekly cash payment to the employee. I think anyone will recognize the need for this minimum requirement. The funds must be held simply for the benefit of the employees and no one else.

There must be security and impartiality in the holding and in the administration of these funds in the States, and private interests cannot have an opportunity to make any profit out of the work of meeting the needs of the unemployed. The amount of contribution rates cannot be so diminished in good times that they fall beneath the requirements so that they cannot be fulfilled in hard times. Administration must be strictly conscientious, for we do not know and shall only learn by experience what the full demands upon these funds will be, and we must not lightly conclude that because of the fact that for 2 or 3 years we have a relatively low incident of unemployment due to seasonal and local conditions that we shall not at some not too far distant time pass into a major depression when the demands upon these unemployment funds will be very great.

Third, there must be absolutely impartial administration of the funds in all the States, and there must be proper provision for just settlement of disputed claims to benefits. There will be, of course, always a certain number of claims to benefit in which the employer and employee will not agree that the employee is entitled to the benefit, and there must be provision in all States for the absolutely impartial adjudication and the settlement by some Government authority as to those disputed claims, and unless there is such a provision there should not, of course, be any offset allowed in the imposition of this act. There must be also as a minimum standard suitable clauses in the State laws to safeguard labor standards. These unemployment reserves should not become devices to break down the wage rates or defeat a man's right to enjoy such union membership and union privileges as he pleases.

It is a good thing that the bill does not make the Secretary of Labor decide as a matter of discretion as to whether the State laws meets the requirements or not. The Secretary of Labor under this law is not to decide on personal opinion but on facts gathered by the examination of the State law itself whether the State law meets the minimum requirements which are recited in the bill before you. If the State law does meet those requirements, then the Secretary of Labor automatically approves that State law, and upon the basis of that approval the Treasury of the United States permits the offset.

This bill allows full opportunity to the States to adopt different schemes in harmony with the general principles of this bill and with their own desires, to try out methods of collecting funds and of distributing funds. Those most keenly in favor of unemployment insurance in this country are somewhat divided in their own thinking as to the best methods which should be adopted in various parts of the country and within sections of the country, where, as we know, there are very different problems of employment and industrial development. This bill allows these different problems to be solved by the different States according to their own particular genius and to be administered locally by those States in the best interests of all of the people.

For instance, the law is broad enough so that the States can take their choice as to whether they will have the individual private re-

quirements held separately for each employer's employees as the only existing employer's benefit law provides, which is the law of Wisconsin, or whether a single State-wide fund supplied by all employers shall be created as proposed in Ohio in a bill which is before the Ohio Legislature following the terms of the recommendation made by a special commission appointed by the Governor of Ohio to examine into and to report to the legislature of Ohio as to what kind of an unemployment insurance law they should have.

There are these two kinds or types or variations of thought in which the experience and habits of the States are different, and in which they should have opportunity to build up their funds on any basis which they feel they can administer.

There is, of course, a difference between the types of industry and the relation between the industry and the Government in a State like Wisconsin and in a State like New York where the very divergence and complexity of the manufacturers and the industrial interests necessitated very much greater fund of relief.

Therefore it is quite natural that there should be a difference of approach to these problems and to the kind of a law that they should have and the collection of benefits, and the amount of resources in the insurance system which they decide to have after due deliberation.

There are, of course, other divergences of opinion which have been found among the States.

There are those who think that there should be contributions made to the unemployment insurance funds by the employees as well as by employers. The bill before you is broad enough to permit the States to have funds to which only the employers contribute, or funds to which both the employers and the employees contribute. It is broad enough to permit the States themselves to contribute to the funds if that seems in that particular State to be the proper way in which to do it.

It is broad enough to allow the States themselves to decide for themselves whether the waiting period between the date of the commencement of unemployment and the date of the beginning of benefits will be a short period or a long period. You will find that there is a considerable difference of opinion as to how long that waiting period should be due to the industrial habits and the employment expense of the people of the various States. There are those who think in States where the employment is very largely seasonal, there should be a short waiting period. In other States where the prevailing industries are on the whole relatively stable and there is rather steady employment there is a disposition to believe that the waiting period should be rather long and the funds should not be used except after prolonged periods of unemployment. It would probably be quite improper at the present time for the Congress itself to decide these rather minute matters, and one of the great advantages of our system of government is that we can permit local authorities to decide these matters according to the local problems which prevail. This bill before you permits that variety of action, and at the same time provides the security of the funds which is necessary.

Unemployment reserve plans which are designed for the stabilization of industry can also be permitted under this particular bill, and that is, I think, another one of the great advantages of it. Where a State permits the employer to set up a fund from which he can make

a deduction in contributions, as a reward for his good record of giving steady employment, that also is permitted.

There is a very great need for unemployment insurance, and this bill which is before you, insofar as it will encourage unemployment insurance in the various States and encourage the passage of laws in the States for compulsory insurance and unemployment reserves is a constructive social measure, a measure of great statesmanship, and one which as it lies before you in Congress today is perhaps the greatest contribution to the future welfare of this country, and I say "future" underscored, for the future welfare of this country. It is perhaps the greatest opportunity before you to lay the basis for a sound industrial system in which we shall not have this unequal burden, a burden borne by our wage earners attempting to provide for themselves against periods of unemployment, recognizing always that they cannot provide for it, and that they are certain to be thrown into very deep poverty at the time of business depression and hard times. The need for it was perhaps never greater than it is today, and we are recognizing it now when we have been through this terrible period of depression. We are recognizing exactly what the total cost to the community has been of this terrible period of depression. We have recognized not only that there has been individual suffering because some of our citizens could not maintain themselves but were compelled to accept the demoralization and humiliation of relief which they were loathe to take, but we have recognized also that a certain other group were entitled to relief and have not taken relief, but have gone on a poverty level so low that it has actually depleted their reserve of health and strength and morale, and has therefore impaired the total population for the next 10 years.

We recognize also that due to the continual laying off of people, and due to the slackening of purchasing power, when the wage earners were laid off, the depression went down more rapidly, probably deeper than there was any need of it going, if we had been able by some device in this country to keep up the purchasing power of the wage earners in the early months and in the early years of the depression.

I think those of us who watched the decline in industry recognize that as the decline came along, and as people were laid off from the industries in which they were regularly employed, their purchasing power dried up. Every storekeeper in this country, every crossroad storekeeper and every storekeeper in the city can tell you of the shrinking up of his sales and the shrinkage of business as people were laid off in his community with the consequent slackening in sales. This in turn caused people in the retail establishments to be laid off, and caused other people at other factories to be laid off, and it went on progressively. If there had been a reserve there or unemployment insurance fund, that would have provided funds to maintain purchasing power and delay the depression that much longer. That is a benefit we can look forward to in this country by putting into effect a sound system of unemployment insurance and unemployment reserves in the various States.

As you know, in March 1933, 45 out of every 100 people who had been employed in our factories in the year 1926 had been laid off. We have taken 1926 rather than 1929, because we recognize today

that 1929 was above the normal level of employment, and we are looking to the year 1926 as a more normal year. In March 1933, 45 out of every 100 people who had been working in factories had been laid off, but there was no regular provision made either for their support or for the maintaining of their purchasing power and their consequent support of other industries during that period.

That in itself constitutes a major industrial hazard, not only for the workmen themselves, but for those who invest in industries and expect to gain their income out of the returns on their investments, and a major hazard to those whose fortunes and whose lives and whose talents are devoted to the management of our industries. We must provide some way of maintaining our purchasing power during those periods, and this method of maintaining it by way of small but regular and steady payments of unemployment insurance benefits in the early months of the depression is perhaps the most effective and the most substantial that has yet been devised.

It has been estimated by competent actuaries that if an unemployment insurance system had been in effect in the State of Ohio from 1923 to 1931 that with such a system based upon premiums amounting to 4 percent of the pay rolls in the State of Ohio, with a 3-week waiting period and a maximum benefit of 26 weeks, and a \$15 maximum benefit having been paid, if they had had a law of that sort that it would have resulted in taking care of all of the industrial unemployment in the State of Ohio through 1931 and would have left a fund with a surplus of \$116,000,000 at the end of 1930, and a surplus of \$19,000,000 at the end of 1931.

Now, that is a very extraordinary provision that might have been made in the State of Ohio if they had collected a small fund. When you think of how necessary relief was in the State of Ohio and how desperately they struggled to raise relief funds in some of the great industrial centers of Ohio you will realize what a bulwark this would have been to them, and how greatly it would have postponed the necessity for the raising or distributing of purely relief funds.

I do not want to be misunderstood as saying that these unemployment insurance funds would be a panacea or would be a total provision against all possible contingencies of unemployment. If unemployment is prolonged for many years, if we have unknown adverse situations which we do not now foresee, we should undoubtedly have to add some form of relief to that, invoking the process of sharing between those who have with those who have not, such as we always have in case of flood, earthquake, or any other form of disaster. But regular provision for the known and expected amount of unemployment will keep the necessity for relief to a minimum, and such a regular provision would save a large number of fellow citizens from the humiliation of asking for relief, Federal or any other kind, and in a sense being put in the group that are handicapped or in the group that are unable to take care of themselves. There is nothing I think of in American life worse than having to be placed in this humiliating situation.

In Minnesota they made an estimate of the situation, and they reported a year ago that an unemployment insurance fund of 4 percent on the pay rolls, with benefits equal to 40 percent of the wages, and with a waiting period of 8 weeks, and benefits lasting, at most, for 40 weeks, would have produced total income between

1926 and 1932 to the fund for Minnesota of \$86,000,000 and that the benefits paid out between 1926 and 1932 would have aggregated \$62,000,000. At the end of 1932, after 3 years of depression, upon this purely arbitrary estimate of what the premium they would have imposed might have been, there still would have been left a surplus in that fund of \$24,000,000.

I cite these reports of competent actuaries, who have made official reports to the legislatures of these States in order to show you how vast and comfortable a bulwark against the great tragedies of unemployment these funds properly collected and properly administered in the various States would have been.

The present bill would help to create unemployment insurance systems in the various States, and it would mean that we could have them locally administered, and locally adapted to the local needs, and methods of meeting unemployment in the future. It would not meet the problem entirely, but it would be a great stride toward security for the wage earner, and for adjustment of the ruinous burdens in modern economic life.

To sum up, this bill seems to me to give a great opportunity for real service to the economic life of this country. It is a fair tax, imposed fairly, which would equalize the competitive burdens between employers, not bearing heavily upon anyone or any group, and it would be a proper means of reimbursing the Federal Government for the enormous expenditures which must be made for relief if no such funds are available in the States.

Moreover, the economic and social picture in our country and in the various States justifies this particular means of encouraging the development of unemployment insurance funds, and this encouragement and the maintenance of our policy and the encouragement of a technique of preventing even deeper depressions by the maintenance of purchasing power of wage earners. The bill offers an admirable arrangement for State cooperation, leaving the States free to develop the kind of laws which they want and yet imposing upon them additional stimulation to increase and encourage and develop for themselves the right kind of unemployment insurance laws.

I trust that your honorable body will report this bill favorably to the Congress.

Mr. COOPER. Mr. Chairman, I had quite a number of questions in mind to ask, but the very helpful statement of the Secretary has covered most of the points that had occurred to me. I assume Madam Secretary, that the statement of your views here reflects the views of our present administration on this subject.

Secretary PERKINS. You mean by that the President, sir?

Mr. COOPER. Yes.

Secretary PERKINS. I have discussed this matter with the President, and in general, I should say that he agreed with me. He has not, however, and I want to be clear about this, authorized me to say to your committee publicly that he is in favor of this particular bill. I have reason to believe he has studied it with particular care, but he will himself say to your committee what his views on the subject are.

Mr. COOPER. You are not prepared to state at this time whether this is part of the President's general recovery program?

Secretary PERKINS. Well, I think that he will tell you that himself.

Mr. COOPER. I see.

Secretary PERKINS. The bill has been discussed with the President in great detail.

Mr. COOPER. Thank you. Taking a broad, comprehensive point of view, is it your thought that compensation to employees in this country over a broad space of time supplies the needs and the requirements of the employees?

Secretary PERKINS. Are the compensation funds great enough so that they can take care of all their employees?

Mr. COOPER. In other words, over a broad stretch of time is the compensation to the employees sufficient to meet the needs and requirements of those employees?

Secretary PERKINS. I think there can be no doubt of that, sir. We have, of course, great irregularity in the earnings of our industries as you have observed. They are higher in some years than they are in other years.

Mr. COOPER. That is exactly the point that had occurred to me. In other words, if we could level it off over a long period of years without these peaks and depressions that would accomplish the purpose we have in mind.

Secretary PERKINS. We would have accomplished a very great purpose for the stability of the country.

Mr. COOPER. Yes; and of course that is the purpose of this bill, to have that even spread of employment as against the necessities and the requirements of the people.

Secretary PERKINS. That is one of the purposes; yes, sir.

Mr. COOPER. Now, would you be kind enough to give us some information as to the treatment that has been given to this problem by other principal countries of the world?

Secretary PERKINS. Yes. The principal industrial countries of the world have all adopted some form of unemployment insurance in past years and have been operating under those systems for a considerable number of years.

In England, as you know, they adopted a form of unemployment insurance about 25 years ago, and except for the fact that, immediately after the war when they were demobilizing their rapidly expanding industries, they had a large number of persons for whom no contributions to the fund had been made (they merely added them to the benefits on the thought that they would have a brief period of excess charge upon the fund, due to demobilization of the industry)—except for that, the fund would undoubtedly have come through solvent. It was more than solvent for over a period of 10 years when it covered only a limited number of industries in which there was regular unemployment, but in which they collected a regular premium, just as you now intend here in the States.

At the present time, if you look over the whole history of the English unemployment insurance fund, you will find that they added the war risk to it, and they added the demobilization of industry after the war without contribution to it, and then they added shipping and coal, which are the two terribly depressed industries, where they would have had to bear the burden and cost of maintaining their population by relief anyhow. If they had not added those two industries the fund would have been solvent today. It is true that necessary Government contribution came about because of the unprecedented decline of these two great industries, the shipping in-

dustry and the coal industry. This brought about a situation in the English experience where the Government was compelled to make unusual contributions to the unemployment insurance fund or else face the alternative which they are now facing of founding an unemployment insurance fund. The purpose for which it was originally conceived was to build up a purely relief fund which did not pretend to be an insurance fund, but purely a relief fund for the relief of unemployed persons beyond the limits covered by the insurance itself.

In Germany, in Italy, in Poland, in Ireland, and in Australia they have long had unemployment insurance funds.

The testimony of industrialists as well as government officials in all of these countries is that they would not have been able to maintain stability and maintain the level of stability of the population if they had been without that, and the testimony of the industrialists even in the most highly specialized of these industrial countries is that it would be unthinkable to go on without that.

In particular in England the industrialists have in the last few years of the depression recognized one of the reasons that they did not go deeper into the depression, and you will remember that their depression was long, but it stayed on a level, it did not go deeper, was that they had to have the purchasing power for at least the minimum of production in that country and that they could depend on selling over the counter on Saturday nights the regular amount of goods that the wage earners were in the habit of buying, and that they did maintain not only those small shops, but maintained also a certain minimum production in all their industries and so kept from going completely on the rocks.

Mr. COOPER. I assume your Department participated in the preparation of this bill?

Secretary PERKINS. We had the honor, sir, to be invited to participate by Mr. Lewis and Senator Wagner.

Mr. COOPER. How does the treatment suggested here compare, in a general way, with the treatment accorded the same subject in these countries of which you speak?

Secretary PERKINS. Of course, we have a complication here of being a Federal country with a Constitution and a habit of life which not only by virtue of the Constitution but by our actual habits revolves around the States and the State governments.

Mr. COOPER. I appreciate that.

Secretary PERKINS. And that being the case, the complications, both the legal complications and the social complications and the political complications surrounding any attempt to have a Federal unemployment insurance law adopted by the Congress and carried out through the Federal Government seemed to us to be unnecessary to face if we could find any other way of accomplishing a result which would be as sound economically.

This is a device, therefore, of setting up a taxing system which will provide the Federal Government with a very necessary and very important amount of revenue, but permitting an offset against it in the amount of contributions to an unemployment fund or an insurance fund authorized by State law in the State, and it seems to us to admirably meet the political situation and the social habits of the American people and at the same time to offer probably a very sound system of unemployment insurance which will be administered in the States

as the people of the State are accustomed to administer their own laws. We will have a further benefit of having an educative experience for the employers of those States as well as for the employees and the people generally, an educative experience from the operation and management of this kind of a fund and this approach to the prevention of any one of our major social disasters.

It is possible, sir, of course, and that is in the minds of many of us, that after a period of experience with such a law as this, that over a period of 10 or 20 years' time it may be desirable to reinsure these various State funds on the ordinary insurance principle and thereby bring the advantages of Nation-wide security to it, not by management by the Federal Government, but by reinsurance through some form of agency of Government which could merely provide financial security. But that, of course, is far in advance, and could not be done until there were in existence not only a considerable number of laws, but a very considerable fund for the working application of the ordinary technique of reinsurance, such as is known in our fire and life insurance companies.

Mr. COOPER. Is it true that this bill is based upon the principle of cooperation with the States?

Secretary PERKINS. It is based upon that, a principle which I think is very important to encourage at the present time.

Mr. LEWIS. Miss Secretary, this can be said, can it not. The minimum requirements of legislation in the States assure the fundamentals of such relief?

Secretary PERKINS. In other words, no offset can be allowed for a fictitious system, one which is not real, which does not actually build up, secure a fund or provide for regular payments to the persons for whom the benefits may be intended under this bill, and I think in that way it secures a minimum without imposing any hardships.

Mr. COOPER. I would like to take up one more line of inquiry, Madam Secretary. With reference of the amount of tax, it is estimated that the 5-percent excise tax would yield substantially a billion dollars a year?

Secretary PERKINS. Yes, sir.

Mr. COOPER. I thought I got from your statement that this tax would be imposed July 1, 1936?

Secretary PERKINS. Yes.

Mr. COOPER. It is imposed July 1, 1935, and, of course, payable at the end of the year, which would be July 1, 1936.

Secretary PERKINS. Thank you, sir. I am afraid I misspoke myself. I meant to say it would be collected, paid in 1930.

Mr. COOPER. It would have to be made July 1, 1935?

Secretary PERKINS. Yes.

Mr. COOPER. The imposition of the tax would begin July 1, 1935?

Secretary PERKINS. Yes, sir; thank you, sir, for correcting me.

Mr. COOPER. Now, then, as to this amount of one billion dollars per year, can you give us a little information, please, as to how that particular figure was arrived at, as the estimated amount that we would need?

Secretary PERKINS. I am free to say that that is an estimate, and, of course, you will have to accept it as an estimate, which must be checked and rechecked, and which is probably full of inaccuracies. It might yield a billion or less. The bill before you is based upon a

collection of the tax from employers employing 10 or more persons. It exempts agricultural employees, domestic employees, physicians, nurses, and teachers. We have relatively inaccurate information, but, still, pretty fair information as to the total number of persons, employers and employees, coming through the census, and the total number of employers. We have checked on that as to the number of employees, and there are certain corrections of that in the census of employers, and the census of employments. So that, on the basis of those returns we estimated the total pay rolls of employers employing 10 or more persons and made a 5 percent estimate. It may be more than will be collected, or it may be less.

Mr. COOPER. I did not have so much in mind the accuracy of the amount yielded by this tax as I was seeking information as to the requirements for the amount of revenue that will be yielded from this particular amount of 5-percent excise tax. In other words, is it your thought that we will need the billion dollars a year that is estimated here to meet this situation?

Secretary PERKINS. I suppose that your committee is better prepared than I am to know how much revenue the United States needs, but remember that this collection will, of course, pass into the Treasury and it will not be earmarked for relief purposes. It is for general revenue purposes, as I understand it.

If I used the word "offset", I meant it in the colloquial sense rather than in the accounting sense, merely that it will be additional income to the United States, which will not be earmarked for relief purposes and will in some degree reimburse the Treasury for the amount that it is spending and perhaps will have to continue to spend for some time, that it will certainly have to continue to spend in any period of depression for the relief of unemployment.

For instance, not only relief appropriations of the Congress for direct relief but appropriations of the Congress for the Civilian Conservation Corps, appropriations for civil works and appropriations for public works, are all forms of relief of unemployment made necessary by the unusual depression.

The billion dollars collected does not meet that in the particular year in which the expenditure is made, but over a period of years it would substantially provide funds out of which these expenditures of the Government could be met in the period when it is necessary for the Government to enter upon an expanded program of public works or an expanded program of particular forms of relief to meet an unusual situation.

Mr. COOPER. It is not thought then that this fund derived from this excise tax measure in any way is to be segregated or set apart wholly for unemployment relief purposes?

Secretary PERKINS. I am told that that cannot be done, that the funds that go into the Treasury, go into the Treasury, and that they are not segregated, but merely build up the total revenue of the United States. Having this extra money will help us meet extraordinary expenditures such as those of the last few years.

I am just reminded that in the year 1933 alone the Federal Government spent \$825,000,000 for bare relief alone, which is a very considerable sum, and does not include, of course, the money spent on public works.

Mr. COOPER. Thank you, Madam Secretary.

Mr. FREAR. Mr. Chairman, I have a few questions I would like to ask the Secretary.

Mr. LEWIS. Congressman Frear.

Mr. FREAR. Miss Perkins, you anticipated many of the questions that I had thought of asking you, but I would like to ask you one or two questions. In regard to this general pool that is proposed there, or the one which devotes funds to the particular industry, now what is the experience abroad in reference to that as far as you know?

Secretary PERKINS. No European country has ever experimented with the particular reserves for particular plants. That is a new idea, and upon that there is, therefore, very little accumulated experience.

In the English system they provided originally for rebates after a period of years to those firms whose experience with regard to the degree of unemployment had been less than the average. It is a regular insurance system of giving a rebate if your experience is less or more favorable than the average. You do not get it in life insurance, but you do in some forms of accident insurance, if your experience has been below the anticipated experience, against whatever the catastrophe may be.

The English fund provided for that, and they provided a 10-year period within which the rebate should be calculated, and just as they reached that period they were plunged into the war, when everything else was forgotten, and when all of their funds were pooled and used for whatever purpose was necessary for the maintenance of social standards. They never did in effect apply the rebate system, although if they had gone on without the interruption of the war they would have, and we would have had some experience growing out of that, but the individual plant idea has never been completely tried out.

As you know, the Wisconsin law provides for individual plant reserves. It does not go into effect until next July, however, so that we get from the Wisconsin system no actual experience which we can show you as an indication of what the experience will be.

Mr. FREAR. That is where it is returned to the specific industry?

Secretary PERKINS. That is where the fund is earmarked for the particular plant or firm and can only be used to pay unemployment benefits to the employees of the particular firm.

Mr. FREAR. I ought to know, because as you know it is my State with which I am familiar. I am wondering just how that money is collected, how it is devoted to these various industries? Is it set apart into the hands of the treasurer of the State or by what means is it accomplished?

Secretary PERKINS. It is collected from the industries on the basis of percentage of pay roll. They pay \$75 for each individual employee, and when they have collected a fund of that amount they cease to make contributions. Then it is held by the State in trusteeship. It is held for that particular industry.

Mr. FREAR. You spoke of England. The dole policy has been pursued there. Does that have any relation to this insurance that you speak of?

Secretary PERKINS. You see, sir, England mixed up their dole with the unemployment insurance. They were faced with a very terrible social problem, and they had in existence this machinery for distributing unemployment benefits, and instead of making a distinction

at the beginning between their unemployment insurance and their purely relief distribution they comingled the two and they made a Government contribution directly to the unemployment insurance fund and had it distributed in that way. They have, as you know, now revised their system, and 2 years ago they reviewed their whole system and put in certain restrictions as to the mingling of funds. They have recently had a still further revision of their act, and they have now separated their unemployment insurance from their relief, and they are now having the so-called "means test". That is, proof of necessity of receiving relief upon the part of all of those who would receive relief.

However, they have had payment of unemployment insurance benefits up to a certain point. That has been because of the fact that they recognized that they had come to a point where they were actuarially unsound, that they must clear up their situation and separate the insurance from the relief. This bill does provide for a minimum amount of benefit, and that is the amount of benefit which is commensurate with the amount of tax collected and the premium collected.

Mr. FREAR. This is to be paid upon application. That is, it is not voluntarily paid until an application comes to the administrative agency?

Secretary PERKINS. You mean not paid to the beneficiary?

Mr. FREAR. Yes, to the beneficiary, but he has to make application?

Secretary PERKINS. Yes; he presumably would have to make application.

Mr. FREAR. The reason I spoke of that, I know in the case of those doles I talked with soldiers over there, and the attitude of some of them was that they would not make the application because they felt it was humiliating to do so, and I was wondering whether in all cases they had to make application to get their benefits?

Secretary PERKINS. I suppose anybody would have to file a claim. I do not assume that the administrative office would find it possible to give them their benefits unless they filed a claim with the facts recited.

Mr. FREAR. I am not speaking of the scope of this bill. It is necessary to file a claim here?

Secretary PERKINS. With the Federal Government?

Mr. FREAR. No; with the various States as they adopt this plan?

Secretary PERKINS. Presumably it would be. That is up to the States.

Mr. FREAR. If they do not adopt the plan how is the money distributed?

Secretary PERKINS. If the States do not adopt the insurance plan there will be no distribution of the fund. It will merely accrue to the Treasury revenues.

Mr. FREAR. It is much like the estate tax in that respect, in that it encourages them to pass a law?

Secretary PERKINS. Yes; it encourages them to pass a law; but in case they do not it piles up in the Federal Treasury a large sum over a period of years which makes it, therefore, easier for the Government and for the taxpayers to meet relief needs in periods of depression.

Mr. FREAR. But as to the average States that collection being received from their industries they would be very anxious to take advantage of it.

Secretary PERKINS. They would; yes.

Mr. BOEHNE. Mr. Chairman.

Mr. LEWIS. Mr. Boehne.

Mr. BOEHNE. My question is a very general one, and probably not entirely germane. Nevertheless, I would like to ask this question: In your work in recent years in labor problems both in New York State and here in Washington, have you observed that any unemployment insurance will eventually lead to a large number of American citizens being permanent objects of charity? In other words, that they would rather receive insurance and not work than not receive insurance and work?

Secretary PERKINS. Of course, I have yet to meet a man who would rather live on \$10 a week, which is limited in most laws to a minimum number of weeks.

Mr. BOEHNE. That is true, but that will be a charge made by any opposition to this.

Secretary PERKINS. It may be so, but I have not yet met individuals who are willing to live on \$10 a week when they can earn \$20 a week or \$25 a week. In other words, this bill pays a man \$7 a week as being the minimum; \$7 a week is what is proposed in many of the laws that are now before the States, and \$10 in others. In some of those they propose a total of 13 weeks at \$10 and 26 weeks out of the year at \$7. There are a great variety of proposals made. I have yet to meet any considerable number of people who would rather receive this than being employed. But, remember, it is proposed to make a definite limit to the number of weeks in which those people can be paid, so that the reason in that case would not be there.

Moreover, a man who is unemployed, making application for these benefits must accept a job if it is offered to him. Of course, we now have the provision in last year's Wagner-Peyser bill for submitting to the Federal employment office, through the public employment office which will be more than ever needed if a bill of this sort goes through in various States, and will be developed along with that. Through that public employment office the demands of the community for labor can be completely surveyed and pretty completely known, and we have a standing test that if a man seems to be inclined to live upon his unemployment benefits, we offer him a job which he must accept or lose his benefits. The only provision is that he need not accept a job at a place where there is a strike, or he need not accept a job at a wage which is substantially below the prevailing rate of wages for that job in that community. In other words, you cannot utilize the need of an individual to depress the wages in the community, nor to break a strike. Otherwise he must accept the job offered him.

Mr. COCHRAN. Madam Secretary, I had a number of questions which I wanted to ask, but your admirable statement has covered most of them. You have told us the experience of England under her unemployment insurance law in meeting the problems resulting from the demobilization of industry following the war.

Secretary PERKINS. Yes.

Mr. COCHRAN. I wonder if you have similar information with reference to Germany and France.

Secretary PERKINS. The German fund became insolvent about 5 years ago due to a very prolonged period, as you know, of unemployment and no employment, and therefore constant depletion of the fund. They translated it at once into a relief fund. They in fact did mix relief with the unemployment insurance fund and put people on who had been out of work more than a certain number of weeks, directly upon relief and provided for them on a relief basis rather than on an unemployment benefit basis. The feature which commends the unemployment benefit system is that it enables a family to continue at practically the same standard, not the same standard, but on a standard of security to which they had been somewhat accustomed. They do not at once have to go on to \$2 a week or a basket of food, which is the relief system.

In other words, they keep on spending some money with the certainty that it is coming in next week, and the week after, and the week after that, while they are trying to readjust themselves to a period which may be, and which of course, they always hope is only temporary, while they find some other kind of work in some other place. The Germans, however, soon after the funds became insolvent divided their consideration of the problem into two systems, the relief system and the unemployment insurance system.

Mr. COCHRAN. What is the situation in Germany today with reference to that system?

Secretary PERKINS. I have forgotten the exact actuarial system, but they have continued this division into relief funds and unemployment insurance funds. The unemployment insurance benefits are very small. Mr. Lubin, who has just been making an actuarial study of the status of the European funds will be prepared to testify on that particular point if you wish him to. They have changed very rapidly in the last year, as you know.

Mr. COCHRAN. Would you care to express an opinion as to this: If the provisions of this bill had been law in the United States in 1926, what effect its operations would have had upon the unemployment that has since resulted?

Secretary PERKINS. That is impossible to say, sir. Any answer that I should give would be highly speculative because I am not in a position to measure the stabilizing influence of what a small regular payment in the short periods of unemployment might have done to prevent this major depression.

Now, we can speculate, and if you will recognize it as speculative, I would like to hazard the opinion that the maintenance of the purchasing power of the wage-earning groups, even during the shorter periods of the minor depressions has a great deal to do toward the prevention of the major depressions and preventing the depth and acuteness of the major depressions. I should also like to hazard the opinion that with unemployment benefits at the beginning of a major depression would go far toward curbing the depression so that the line of unemployment would not fall so rapidly, and perhaps not so far but on that I feel like saying again that is a speculative opinion, and there is no real way of estimating it. The changes in American industry since 1926 have been very great and very profound and what the influence of this particular measure would have been if it had been in effect, we do not know.

We do know, however, that if it had been in effect there would have been in all of these industrial States a very substantial fund

created out of which benefits could have been paid to unemployed workers as they went off the pay roll, which would have gone far toward sustaining them through a portion of the depression which has gone so harshly upon them, and therefore would have resulted in making much less demands upon both the State and Federal revenues for the provision of public works and for the provision of relief as an offset to or as a remedy for the distress of our citizens. It is very difficult to measure it. The figures I gave you for Minnesota were calculated upon the theory that a 4-percent contribution was made of the amount of all the pay rolls from 1926 to 1932, and that 40 percent of the wages were paid each week to those who were out of work for 40 weeks in the year. That is a very ample provision, and it is much larger than most of the States have proposed to make. It was a purely theoretical estimate that was being made, but the estimate was that the total income between the years 1926 and 1932 would have been \$86,000,000 and that the benefits paid out between 1926 and 1932 would have been \$62,000,000, and at the end of 1932 after 3 years of depression there would have been still about \$20,000,000 in the fund. We are sometimes inclined to forget that even in periods of depression the major portions of our pay rolls go right on, so that although the benefits are being paid out of the fund with one hand, on the other hand there is contribution to the fund being made on behalf of those who are still employed.

Mr. COCHRAN. Madam Secretary, if this bill were enacted into law, and if all of the States passed complementary legislation, in your opinion would its operation prevent major depressions hereafter?

Secretary PERKINS. I think it might have the effect of preventing major depressions, but I would not like to be interpreted as having said categorically that it would actually prevent major depressions. I think it would have an effect toward the prevention of major depressions.

Mr. REED. Madam Secretary, in view of what you have said, perhaps I should wait and direct this question to Mr. Lubin, but I was wondering just what you have gained from the experience of other countries in unemployment insurance. I was thinking when you mentioned France, that, of course, there is a situation where I understand there were several million men killed. They really had more or less a shortage of labor. I was wondering just how far that might have a bearing on the situation, and then, too, you have a situation there, from what I have read, that absorbs the labor as it loses work in industrial plants. Over there they are very close to the soil, and when men lose their employment in industrial plants they drift back to the farms. I was wondering just how far that had helped to mitigate the situation.

Secretary PERKINS. That has mitigated the situation to some extent, and, of course, then we have to recognize that the French have had a very definite philosophy against the mechanization of industry, or, at least, hold back the mechanization of industry very substantially for the purpose of not creating too much unemployment in a relatively stable population. Mr. Douglas and Mr. Lubin really have information on these foreign conditions, and they can tell you about that. They have never adopted a compulsory unemployment insurance law in France.

Mr. REED. I was there when they were planning rehabilitation of the war-torn area and it was a very comprehensive program, and, of course, that absorbed a great deal of the labor there. I am somewhat sympathetic with the purposes you have in mind, in fact, very much so. I was just seeking some light on the subject, and I thought of course, if other countries had similar experiences to ours, it would be very helpful.

Then, there was another point I wanted to ask about: Are there any definite figures upon which actuaries can really base figures of this character?

Secretary PERKINS. Mr. Rubinow, who is an actuary from Ohio, and who is connected as actuary of the Ohio Unemployment Commission will testify later on this. The question of whether this risk can be computed actuarially is one, of course, upon which actuaries disagree. There has not been long enough experience, so the more conservative ones will tell you, to enable them to make an estimate of the total cost of insuring the total amount of unemployment. It is for that reason that most of the proposals which are being made in this country are definitely limiting the number of week's benefit and definitely limiting the amount of payment per week. If you limit the amount of payment per week, and if you limit the number of week's benefit which can be paid, then you know the payments, the total sum that would have to be paid in 1 year, and you can therefore compute the sum which must be collected, and you can apportion that appropriately between the employers who must make contributions and between persons who must make contributions to the fund. Experience may prove that the theoretical collections will be in excess of the need, but upon that we shall only be able to make sound calculations and sound conclusions after we have had some experience on a limited, very conservatively managed fund. It is for that reason that there are very conservative safeguards in all of the laws which are being passed in any of the major industrial States today.

Mr. REED. Thank you, Madam Secretary.

Mr. LEWIS. In your estimate of a billion dollars as resultant of this tax, what year was employed as the basic year?

Secretary PERKINS. For the collection of it?

Mr. LEWIS. Yes.

Secretary PERKINS. The present time, the present year.

Mr. LEWIS. The estimate would be based, then, upon the present low state of the industries?

Secretary PERKINS. We did that because we knew no better.

Mr. LEWIS. We thank you, Miss Secretary, most warmly for your very comprehensive statement.

Secretary PERKINS. I shall be glad to have anyone from the Department appear before you whom you wish, sir.

Mr. LEWIS. We will next hear from Senator Wagner. Senator, the members of the Committee and the Subcommittee have a meeting at 20 minutes after 12, and I would like to inquire whether you would prefer to make your statement now or later.

**STATEMENT OF HON. ROBERT F. WAGNER, UNITED STATES
SENATOR FROM THE STATE OF NEW YORK**

Senator WAGNER. What time is it now?

Mr. LEWIS. It is about 5 minutes to 12. We do not want to restrict you in any way. I was wondering whether you would prefer to start now and resume again at 2 o'clock.

Senator WAGNER. I doubt whether that will be necessary. After the very admirable and as always brilliant presentation by Miss Perkins, there is certainly nothing of a detailed character that I can add. In fact, I do not even pretend to be any kind of an expert on this question, and in view of the really very clear presentation which has been made by Miss Perkins, I am going to confine myself to some general observations, which I think I can finish in 15 minutes.

Senator WAGNER. Mr. Chairman, the problem of unemployment did not result from the depression, nor will it vanish completely with the return of normal economic conditions. It is too deeply embedded in modern industrial society. In the boom year 1927 between 2,000,000 and 3,000,000 people were unable to find work, and since then the displacement of men by technological improvements suggests a long-range challenge to our social inventiveness.

Nevertheless, the depression has had a tremendous effect upon our thinking about unemployment. On the ethical side, it has sharpened a consciousness of public responsibility by proving that unemployment is due to a social disease rather than to individual shortcomings. In the early part of 1930 the first comprehensive survey showed that among the 3,000,000 unemployed, 2,500,000 were able and willing to work. I think this answers the suggestion that with the passage of this legislation we might have a large group that would prefer to accept unemployment insurance rather than work. That has often been stated, but personally I think it is a libel upon our American worker, and this depression has proved conclusively that he does not want charity; he wants to work.

On the economic side, recent events tell us unmistakably that unless we deal boldly and completely with this subject we face an endless series of catastrophes. A shrinkage of 41 percent in the volume of employment and over 50 percent in the real income of wage earners is in every sense a national calamity, and a terrific menace to democratic procedure and the preservation of our best ideals.

We are notoriously a practical people. When faced with a problem of this magnitude, we intend to solve it. Schooled as we are in self-reliance, our first thought may be that the unemployed should rely upon their own savings. During the so-called prosperity era the average wage earner received only \$1,500 a year, or \$29 per week, with which to provide for himself and his family. This is hardly a subsistence wage, and its persistence even during a period of rapidly increasing national wealth was an indictment of us all. Surely, we do not desire to make the record even darker by claiming that the poor should bear the costs of business decline. It should not and it cannot be done that way.

The second possible recourse is to private and public charity. The worst feature of this is its utter insufficiency to remedy want. The

State of New York is the wealthiest in the Union, and one of the promptest in responding to social needs. Yet in 1932 the largest sum ever spent for relief in 1 month in New York City was \$4,000,000, contrasted with a monthly wage loss due to unemployment of from 80 to 90 million dollars. During the last part of 1933, even when the Federal Government was engaged in the most wide-spread relief program in our history, I estimated that only 10 cents per day were available for each of the millions of men, women, and children dependent upon public funds.

Aside from its material inadequacies, charity is a poor substitute for earned income. So long as we live under a system in which industrious men normally win their bread by working, industrious men suffer degradation when they must exist by begging. Recent experience has shown that the vast majority of American workers will not enter the bread line until their families are upon the borderland of starvation. That is an answer to the suggestion that he does not want to work. They want and merit an opportunity to preserve their self-respect and morale. Their record is complete refutation of the charge that a systematic plan of unemployment reserves would encourage indolence.

The final shortcomings of the type of public relief that we have witnessed recently is that it has almost no tendency to prevent or abbreviate depressions. It begins to operate only after the emergency occurs. It seeks to raise funds at the very time when it is hardest to do so. It curtails purchasing power by drawing heavily upon people of moderate means. For example, in my own city, an appropriation of \$5,000,000 per month to aid the jobless was accompanied by an annual reduction of \$20,000,000 in the salaries of city employees, most of whom do not earn large incomes. Until 1932, 65 percent of the cost of public relief was borne by localities, using general property taxes that place a disproportionate burden upon people who are not wealthy and who do not possess much intangible property.

The clear alternative to these defective and makeshift devices is unemployment insurance or reserves. Almost every enlightened European nation has found insurance workable and beneficial, and no country that has tried it has deviated from its basic principles.

There was a very interesting discussion this morning on these European plans. Of course, Miss Perkins is much more familiar with these plans than I am, but I have examined into the records closely and find that every industrial country but our own has inaugurated a system of unemployment insurance.

It is even more important to note that the soundness of the reserves idea has been capitalized by American industry. During the first 3 years of the depression, the surpluses stored up by business men served as an almost complete cushion against decline in the incomes of stock owners and management. While wages were tumbling downward at a dizzy pace, dividend payments in 1930 were two and a half times as high as in 1926, and in 1932 they were 80 percent higher than in 1926. These figures not only show that insurance is feasible. They bring clearly into the limelight the social injustice of providing the least protection for the workers who need it the most, and of shifting to their backs the heaviest and most immediate burdens of depression.

This contrast, however, is not simply an ethical eyesore. It focuses attention upon the most serious economic flaw in our present system. The building up of capital reserves to insure the continuous payment of high dividends means that when depression begins there is no provision for initiating a flow of purchasing power into the hands of consumers who have suffered reductions in wages or lost their jobs. Instead, regularity of income is provided for those in the upper brackets, an such income is reinvested in capital equipment or frozen in savings vaults. Unemployment insurance or reserves, on the other hand, would check an impending depression by releasing new stimulants to consumer demand. They would benefit every group by promoting industrial stability.

There are certain fundamentals upon which most students of unemployment insurance agree. In the first place, it is clear that compulsory action through law is necessary. Voluntary systems of protection, after two decades of propaganda, covered only 200,000 workers in 1932. This is not because the majority of employers do not realize the benefits of insurance, but because the standards of action are set by the least moral and least farsighted competitors. Secondly, the necessary compulsion should be left to the several States, because of the varying social and industrial conditions prevailing in different parts of the country, and because each of the several insurance or reserves exponents should have opportunities to test the validity of his ideas. This point was emphasized by Miss Perkins this morning.

However, there is an area that should be covered by Federal action, for without such encouragement the more progressive States, with one exception, have failed to enact unemployment insurance or reserve laws because they fear the competition of more backward areas. Therefore, this bill imposes a Federal tax upon the pay rolls of all employers utilizing 10 or more employees, excepting agricultural laborers, domestics, teachers, and a few other groups. It provides for a rebate to all employers equal to the amount that they contribute to unemployment funds under State law. Of course, the States would prefer to have reserves built up and invested at home rather than by the Federal Government. Hence the passage of this bill should lead to the rapid enactment of National wide State laws.

An important feature of this bill is its emphasis upon the stabilization incentive. An employer who has succeeded in reducing his State contribution because of success in regularizing employment will receive an additional rebate as a reward for his efforts.

Despite the wisdom of allowing each State to devise its own plan, no State will be allowed to secure rebates for employers by instituting a scheme that has not real protection features. This bill sets up basic standards to which all State laws must conform. These standards include reasonable benefits to the unemployed. They also require supervision or administration of funds by the State and prohibit the utilization of private insurance companies. They insist that no worker shall be denied benefits because he refuses to accept employment as a "scab", or upon condition either that he enter a company union or refrain from belonging to a labor union of his own choosing.

Finally, the first Federal tax would be imposed for the year commencing July 1, 1935, and thus would not introduce a novel factor at the present time into the industrial revival that is at hand.

I believe that every State which enacts unemployment insurance or reserve laws will benefit immeasurably thereby. Every law imposing an additional cost upon industry has been fought bitterly by the short-sighted or the selfish. This was the case with workmen's compensation. But every such law has been vindicated, not only by improving the lot of employees, but also by yielding beneficial returns to employers. The creating of new incentives to efficiency, the promotion of more amicable and equitable industrial relationships and above all the stabilization of employment, are matters in which everyone should have a profound interest. This bill is addressed directly to these problems. I believe that it will remove some of the causes of unemployment and afford the only possible adequate and respectable relief to those who are without work from time to time. Therefore I urge upon the members of this committee the necessity of speedy and favorable action upon this bill.

Mr. Lewis. Thank you very much indeed, Senator.

Now, may I call on Mr. Hopkins, who I believe is present. This is an exception to the announced order of witnesses, but as we all know, Mr. Hopkins is a very busy man, and we will hear him at this time.

STATEMENT OF HON. HARRY L. HOPKINS, FEDERAL EMERGENCY RELIEF ADMINISTRATOR

Mr. HOPKINS. It seems to me that there are two wide fields or social problems that can be handled properly by means of insurance, compulsory insurance, and cannot be handled in any other way. Those are the fields of sickness insurance and unemployment insurance. It is impossible, it seems to me, for the wageworker with a family to put in his family budget sufficient to maintain himself during periods of unforeseen idleness, just as it is impossible to put in his family budget an amount to maintain him if there is illness. While there is such a thing amongst workers families as average cost of rent and food, you cannot average illness or unemployment, because the whole cost falls on the person who is ill or who is unemployed.

Therefore, it seems to me that the only way to meet those costs is through a scheme of insurance. I think we have had enough experience in the voluntary end of this business to become convinced that it can only be done by compulsory insurance.

Now, why do we have insurance when the relief funds are available? If we are unfortunate enough to have another business depression, why not do it through the relief route? Well, I think that answer is pretty self-evident. Relief is a degrading thing for an individual. He has no right to it. He gets it after an investigation as to whether he is in need. You cannot ignore the moral factor in a workingman who knows that if he is thrown out of work for no fault of his own he is guaranteed a benefit. I do not think you can overstate the value of that.

Now, we have heard a lot about these insurance schemes being a dole, and I have no doubt we will hear about that again. Most of the people that use the word do not know what it means, and in the main, it seems to me that it has been a word that has developed in the past 10 or 12 years on the part of people who simply do not believe that unemployed folks should be taken care of.

As a matter of fact, there is no question in my mind that the countries that had unemployment insurance, and particularly England, that their scheme of taking care of unemployed was far better than ours, and it does not cost any more than ours.

Now, there are a number of other arguments in favor of this. Senator Wagner brought out one, that we collected a large proportion of the funds in times when the business cycle is good, when it is fairly easy to get the money. Lately we have been trying to get these millions and these billions of dollars for the unemployed at the very time when industry and the Government could least afford a tax for it. The largest contributions toward the fund would come during periods of the largest employment.

Now, I have this feeling about it: This insurance bill or any unemployment insurance bill is not a cure-all. It does not settle this problem by a long shot. I firmly believe that in addition to any insurance scheme you have got to have work benefits provided through a well-organized scheme of public works which will be projected over years to come, which would move up in times of industrial depression, and move down when it was not needed. I do not mean to imply that I do not believe that insurance benefits are necessary. I believe they are, but I think that you are going to have to find something to supplement that at the time when the insurance benefits stop in the form of work opportunity, which is, in effect, a part of the whole scheme.

Now, as I see it, it seems to me that it does two things: First, it, the insurance bill, eliminates a fear in the minds of the workers. The average worker in this country has no security, and the constant fear that he is going to be thrown out of a job and thrown onto relief rolls, even though we have an adequate relief system, is demoralizing. It is not fair to ask these decent workers to do it. Now, I think we cannot overemphasize the importance of the elimination of the fear in the minds of the workers of America, which this bill would substantially do.

Also, I think it would provide for the expenditure of funds which would be very nicely and advantageously timed to the decline in employment, which would move funds into circulation and into industry, and into business at the very time when they are needed. I do not want to overemphasize that. This is not going to, in my opinion, prevent any depressions, but I think it will help. You have got to be cautious as to extravagant claims as to what this is going to do. It is going to do certain things that are necessary and essential, but it is not going to solve the problem of industrial depressions in my opinion.

I think the final and real argument for this is that this is a matter of simple social justice. The workers are entitled to this. We will pay it. The consumer will pay this bill, because it will all be passed on to us, but I think the workers of America are entitled to the kind of guarantees and to the kind of benefits, and these benefits are relatively modest ones, which this law will give them.

I do not believe that if we had had an unemployment insurance law even in 1926 that we would not have had to develop other supplementary schemes during this kind of a period, but in the main you are now thinking of a law which you do not associate with this kind of a depression. You are thinking of something that you associate with an

industrial depression which drops off a million men from employment during a period of months or a year. When you get into this kind of a thing you are always going to have to take other steps to supplement any insurance scheme.

I am deeply in favor of a scheme of compulsory unemployment insurance. I believe it is far better than relief. I think it will need to be supplemented by a scheme of work benefits through public works, and I hope the committee will find it possible to make an affirmative and favorable recommendation to the House on this bill.

Mr. LEWIS. Are there any questions?

Mr. FREAR. I have one question, Mr. Chairman. It refers to this only incidentally, and that is that we are getting many letters in regard to old-age pensions. Have you anything to suggest along that line?

Mr. HOPKINS. Yes; I believe we are getting to the time when we have got to take this group of people that, I would say, today number about 20,000,000 people in America, who are getting benefits today from the States, counties, and the Government and divide them into groups such as the aged, the sick, and chronic dependents. If you want to start old-age pensions at once it will not be done by the insurance route.

I think it would be desirable now to begin to take off certain segments of those groups of people and say we are going to take care of this group in this way. We might as well make up our minds that we have the job of taking care of a great many old people in this country. I do not believe it should be done entirely by the Federal Government. Whether or not it should be done by a grant in aid of the States, I do not know.

At this particular moment, I presume that the Federal Government is paying a very substantial part of the cost. While we deal with unemployment, I know as a practical matter that from one end of this country to the other there are receiving benefits many people who are not bona fide unemployed people, but old people, and people who are ill. I would like to see something done in reference to taking care of this problem, which gives us very much concern.

Mr. FREAR. Is there any proposal you know about to raise funds that would be necessary by the Federal Government so as to impose collection similar to this bill in the various States?

Mr. HOPKINS. I simply know there have been two or three bills introduced in Congress. I do not know the status of them.

Mr. FREAR. It seems that this imposing and collecting of funds and distributing them to the States dependent upon their passing laws ought to be sufficient in this connection too.

Mr. HOPKINS. Do you mean this can be used for old-age pensions?

Mr. FREAR. Yes. I was wondering whether anything like that had been proposed in that connection?

Mr. HOPKINS. Not that I know of.

Mr. LEWIS. Can you supplement your remarks with a summary statement of your experience in this relief work, I mean a type-written and comprehensive statement?

Mr. HOPKINS. Yes.

Mr. LEWIS. Your experience in this relief work?

Mr. HOPKINS. Yes; I would be glad to, Mr. Chairman.

Mr. LEWIS. Thank you very much indeed.

Mr. REED. I have just one question, Mr. Hopkins, because this is a thing that has disturbed me for several years. It may not enter into this picture, but it cannot be ignored and that is the tendency of corporations all over the country to simply cut off a man when he has reached an age when he still thinks he is very efficient, and they take on a younger man and leave the man of 45 without any chance of employment. I was just wondering if you had given some thought to that, because it really does enter into this picture.

Mr. HOPKINS. That is going on right now, very substantially, all over this country. Especially in reemployment the industries hire these younger people.

Mr. REED. Have you any figures showing how many people there are who are thrown on the scrap heap because they have arrived at the age which is arbitrarily fixed as the age of lost efficiency?

Mr. HOPKINS. We know the number of people of that age who are on our relief rolls in America. That is the only figure I have. I hear about it all the time, but I have no statistical evidence. I have a conviction that that is going on, and it is a very serious problem.

Mr. LEWIS. These debarred workers are our American untouchables in the terms of India.

Mr. COOPER. Could you include in your statement, Mr. Hopkins, such information as you have on that point?

Mr. HOPKINS. Yes; I should be glad to.

(Whereupon, at 12:45 p.m., the hearing was adjourned until 2:30 p.m. of the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p.m.)

Mr. LEWIS. Ladies and gentlemen, the committee is ready to proceed. Professor Douglas, you are next on the list. I understand you have agreed to let Mr. Epstein precede you.

Mr. DOUGLAS. I would be glad to do so.

Mr. LEWIS. All right, Mr. Epstein.

STATEMENT OF ABRAHAM EPSTEIN, REPRESENTING THE AMERICAN ASSOCIATION FOR SOCIAL SECURITY

Mr. EPSTEIN. Mr. Chairman, and members of the committee, I was very much interested this morning to find that so many of you were interested in what has been the experience with unemployment insurance in other countries. That, of course, has a very important relation, and I am very glad to see the members of the committee interested in that particular phase, because for a number of years, when it came to social legislation we have sort of taken the attitude that just because other countries do it and do it successfully, therefore that is a very good reason for us not to do it. So that I am glad to see there has been a real change of attitude in that regard, for the experience of other nations has been and is of real value.

I shall, therefore, try to present to you some of the comparative developments of this country as compared with England. Undoubtedly, the most successful system of unemployment insurance—and to my mind the best system, as a matter of fact, perhaps the only real system of unemployment insurance—that exists anywhere is the British system of unemployment insurance. It is at present

the most successful, the most thorough, and today the most plausible example for the United States, and, therefore, one that can teach us the best lesson.

First, I should like to state the problem, and that is that we in this country have the greatest problem of unemployment, and this fact is now admitted by all. To quote, for instance, a recent statement of President Roosevelt. He stated as follows: That our country has been facing a problem—

that no other nation in modern history has ever been confronted with. We have heard a great deal of unemployment on the other side, in England, in France, and Germany, but at no time in any of these countries has the unemployment situation even approximated the unemployment situation in the United States last spring. You can figure it at 12 or 14 or 16 million, or whatever you like—on the basis of population that is a larger percentage of men, women, and children out of work, in most cases suffering physically and mentally—a larger proportion than anywhere else.

That, gentlemen, is a direct quotation from the President a few months ago.

Our fear of the so-called "British dole system" has not prevented us from introducing into this country the most degrading and inefficient system of doles ever known.

I was happy to hear Mr. Hopkins practically say the very same thing.

No matter how much we attempted to shift our responsibilities, we were forced during the peak load of relief, last spring, to support a total of 4,560,000 families approximating 20,000,000 persons, or one sixth of the population of the United States through unemployment relief from public funds.

Instead of taking advantage of the modern method of unemployment insurance, with employers and workers making regular contributions, we have merely perpetuated the antiquated, incompetent, and haphazard 3-century-old poor relief system which, in the words of the President of the United States, "we might just as well call frankly a dole."

I should add that it is the worst kind of a dole.

Moreover, our system has actually proved far more expensive than the British plan. Mr. Hopkins made this very statement this morning. Our total public relief expenditures in 1933 are generally estimated to have amounted to between \$900,000,000 and \$1,000,000,000, not to speak of the \$300,000,000 appropriated for the Federal Surplus Relief Corporation. It is a fairly conservative estimate to say that we spent about \$1,000,000,000 on public relief in 1933.

But while we were following the most degrading system of doles, the British Government for over 20 years has followed a system of self-respecting insurance to which employers, employees, and the State have made regular contributions. Although the British Government in 1933 took care of a much larger proportion of her unemployed population than we did, and granted relief at least twice as adequate as the average relief dole in the United States—and in purchasing power, I should say, perhaps three times the adequate—the total expenditures in Great Britain did not exceed more than approximately \$300,000,000, which, on the basis of our population, approximated \$830,000,000. In other words, if we had a system such as the British plan, we in 1933 would have been able to take

care of a larger proportion of unemployed persons, on a much more adequate basis, and, at the same time, save some money for our taxpayers.

As Mr. Hopkins said this morning, our relief system has actually proven more expensive, in dollars and cents, let alone in human tragedy, than the British system of unemployment insurance.

But even more important is the difference in results attained by the British policy of insurance and our policy of degrading doles. The number of unemployed has even today not declined appreciably in the United States. Were it not for the stimulus given through the P.W.A. and C.W.A., there are few indications of a truly increased employment, despite all the efforts of the N.R.A. On the other hand, the British unemployed have declined by about 700,000 or approximately by one quarter during 1933, and their number is steadily decreasing. Britain is definitely on the upgrade and the number of unemployed is declining every week.

Moreover, the British system of social insurance has upheld the English index of production to a higher point than that of any other country during the past 4 years of depression, while our index of employment has declined to a lower point than that of any other nation. The physical volume of production, for instance, taking 1929 as 100, declined in Great Britain to only 84.1 in the middle of 1932. In Germany the index declined to 56.9 and in France to 67.3. But in the United States, production during the same period fell to the unprecedented low point of 51.3, which is about one half.

Indeed, British industries manufacturing for home consumption have been relatively stable even in the worst 2 years of the depression, in 1931 and 1932. In such industries, for instance, as electric wiring and contracting, silk and artificial silk, the electric cables and lamps, electrical engineering, printing and publishing, motor vehicles, bread, cakes, and so forth, all the industries that manufacture for the home market, the index of employment in Great Britain remained at practically 100 percent, or even higher in 1932, in the worst year of the depression, than it was in 1931.

In other words, the English market, the home market, was maintained at practically 100 percent, whereas the index in its exporting industry, although that is where England was affected mostly, even in that case it did not fall to as low a point as it did in the United States. Why, gentlemen, did this difference occur?

The fact is that England had a depression for about 6 years longer than we did. The fact is that England depends upon the foreign market much more than we do. Whereas with us only about 10 percent of our goods are exported, England exports about 30 or 40 percent of her manufactured products. Yet despite the fact that England suffered a depression for over 10 years, despite the fact that England depends upon her foreign market much more than we do—despite all these things, the index of production in England was kept at a much higher level than that of any other country, and especially much higher than in this country.

What have been the reasons for that? The reasons are, in effect, that the wide system of social insurance, which England has experienced for the last 30 years, has made available in England purchasing power which prevented its unemployment from reaching the appalling levels reached in the United States.

Thus the American people have not only been misled about the costs of the present chaotic system of relief doles to the American taxpayers, but even more untruthful has been the inspired propaganda to the effect that an adequate system of unemployment insurance adversely affects industrial production.

The British system of unemployment insurance stands out not only as a great humanitarian undertaking, but it is universally acknowledged in England that it has also proved of the utmost help to British industry and production. Despite its more difficult problems, Great Britain's unemployment insurance plan has saved that nation from descending to the depths of depression experienced by this country and other countries. Far from being harmed by her expenditures on unemployment insurance, the money thus disbursed has given increased purchasing power to the English people and prevented production from falling to the low levels experienced in this country.

The wide system of social insurance has enabled Great Britain not only to augment internal purchasing power, but to temper the depression in other ways as well. By drawing a considerable share of the cost of social insurance from taxes on inheritances and high incomes, overexpansion of credit and industry was prevented and the insensate boom which characterized our period of prosperity avoided.

Money was transferred from unnecessary investments and idle savings to supply actual purchasing power to the unemployed, the aged, the widows, and orphans who would otherwise have been unable to buy anything, thus cushioning the shock of the depression. By the building up of reserves, England diverted funds from useless speculation of good times to essential expenditures in bad times. Finally, by establishing security and lessening the competition for jobs at any price, wage rates have been maintained almost intact, thus assuring full purchasing power to those who continue at work.

Perhaps I ought to call your attention to this very important fact: That whereas our wage rates have declined by at least 50 percent or more, and our actual wages have probably gone down from \$1,400 to \$800, as Professor Douglas noted the other day, England's wage rates from 1924 to 1933 have actually gone up rather than down, because they did not have the competition for jobs, with work at any price, as has been the experience in this country.

Every British student of the problem has testified to the same effect and the resulting benefits. According to a recent statement made by the Archbishop of Canterbury:

There is * * * general agreement among clergy and Christian social workers that * * * unemployment insurance has * * * undoubtedly saved many from the worst physical results of unemployment. Unemployment today is not attended by the same amount of physical hardship as was the case in the past.

Sir William Beveridge and Sir Arthur Steel-Maitland, former Tory Cabinet minister, on their recent visit to this country stated:

Unemployment insurance has saved an amount of human misery and suffering that simply cannot be calculated. It has brought us through the depression without civil disturbance and without starvation.

The same opinion was expressed by the latest Royal Commission which declared that:

It (unemployment insurance) has prevented serious distress in a period of unprecedented unemployment—

while Sir Herbert Samuel, another former cabinet minister, stated a short while ago:

I don't think anyone in England, either in Parliament or out, would want to see the unemployment insurance fund or the old-age pension bills repealed.

I might add that yesterday we completed a study of malnutrition in this country and in England, and to our real shock—and I know you gentlemen will be just as shocked as I have been—we found that whereas a recent estimate by Miss Perkins stated that at least 20 percent of our school children in the United States suffered from malnutrition, today the British chief medical officer in a recent report stated that the percentage of malnutrition among British school children is less than 1 percent, and that throughout the depression it has not increased one bit.

There is something to think about, in a country which has prided itself and has done everything it possibly could to elevate the welfare of our children.

Mr. REED. Is it proper to interrupt the witness, Mr. Chairman? Mr. LEWIS. Yes, sir.

Mr. REED. Mr. Epstein, I know you are coming to this a little later, so you might answer it now. Have you got the figures showing the infant mortality rate over there and in this country during this period?

Mr. EPSTEIN. I am sorry but I have not got them with me. However, I think it is about as low, if not lower.

Mr. REED. Would you mind putting them in the record?

Mr. EPSTEIN. I will try to get them for you, if I have them.

(Mr. Epstein subsequently submitted the following data:)

One fifth of all preschool and school children of America show signs of "poor nutrition, of inadequate housing, of lack of medical care," according to the authoritative estimate made recently by Miss Francis Perkins, Secretary of Labor of the United States. As many as 34.8 percent of the school children of a district in New York were rated as subject to "poor" or "very poor" nutrition in a study conducted by the United States Public Health Service and the Milbank Memorial Fund. A United States Public Health Service inquiry covering Cleveland, Detroit, and Syracuse disclosed that the milk supply of families reduced to relief status "averaged 30 percent less than the minimum for an adequate diet and the supply of vegetables other than potatoes about 50 percent less than the minimum."

According to Miss Grace Abbott of the Children's Bureau of the United States Department of Labor, "hospitals and clinics report an increase in rickets among children; in New York City, where relief for the unemployed has probably been more nearly adequate than in any other of the largest cities, the city Health Department reports that 20.5 percent of the school children examined were suffering from malnutrition in 1932 as compared with 13.6 percent in 1928 and 13.4 percent in 1929."

As against these figures, there is the official declaration of the chief medical officer of the British Ministry of Health, in his annual report for 1932, that malnutrition has been found only in about 1 percent of the school children of England. The report states: "During the last 4 years, the figure has remained almost stationary at the very low figure of about 1 percent. It is affirmed, however, that the height and weight of school children have definitely improved during the last 10 years."

Back in 1908 malnutrition was prevalent in England to the extent of 15 to 20 percent in some districts. By 1910, the figure was brought down to 10 percent. The figure sank further to below 1 percent for the period 1923 to 1928, as a

result of the various social services and social insurance provisions. From the latter date on, despite the intensified crisis, malnutrition was kept down to the 1-percent level.

Not only malnutrition, but infant mortality and general mortality rates were reported as having dropped by the Chief Medical Officer of Great Britain. The infant mortality rate for England has been reported as 64 per 1,000 in 1933. This was one below 1932. The American infant mortality rates for the registration area, according to Miss Abbot, are as follows: 1929, 68 per 1,000; 1930, 65; 1931, 62 (provisional rate).

Mr. ERSTEIN. For many years a great deal has been said in this country about the British dole encouraging idleness, and that the unemployment insurance system has eliminated all desire for work on the part of English workers. A number of you gentlemen asked that question this morning. No greater falsification has ever been made about any country or any people, and every Englishman is justified in resenting it deeply, and he does resent it very seriously.

From the very beginning the statistics of the unemployment registers have belied the notion that men and women in England prefer living on the "dole" to working. It cannot be done, even if they wanted to, because before an unemployed person can receive his weekly benefits he must have reported daily to an employment exchange for work and must accept work within his capacities and training whenever it is available, or otherwise he cannot possibly get the benefits.

The administrative requirements are rigorous and the overwhelming proportion of the unemployed receive benefits for no longer than 4 or 5 weeks at any one time.

One of the most frequent criticisms of the British system is the criticism that once a man gets on the unemployment insurance register, he stays there. The first thing you find out about the system is that that is absolutely wrong, because it is only about 5 or 6 weeks on the average. One group gets on because their industry has a slack season at the time, and when that industry picks up they get off and another group of workers go on. They are constantly shifted, and a man may be on two or three times in a year, but for short periods of time.

During the 7½ years from October 1923 to the end of 1930—and these figures are very important, 44.2 percent of the insured never drew any benefits at all, never drew a single cent of benefit during the entire 7 years. In other words, the charge that is made that people just retire on the "dole" is belied right off by the fact that 44 percent of the people that have been insured have not drawn one penny of benefit in 7 years of depression.

Nearly one quarter more received benefits for 1 to 100 days, and only 1.3 percent drew benefits for more than 1,000 days during the entire period.

The situation was summarized by the British Ministry of Labour as follows:

Over the 7 years ended 1930 only 2.9 percent of males and 1.2 percent of females * * * had drawn benefit in every year * * *. More or less continuous unemployment is confined to a very small section of the insured population, which cannot include more than about 100,000 men and 3,000 women.

Remember this, gentlemen, that this is a total from an insured population of approximately 13,000,000 people.

(Continuing quotation:)

This group represents the maximum size of the standing army of the unemployed. The number of those who have had no unemployment is at least 30 times as large.

In other words, 30 times as many have never had unemployment benefits for one which had unemployment benefits in this 7-year period.

The latest official study of insured unemployed, including the 2 worst years of the depression—1931 and 1932 tells the same story.

Out of 30,140 males in the typical sample there were only 62 who had paid no contributions between July 1925 and June 1932—

according to the British Ministry of Labour Gazette of September 1933.

Among the men who entered insurance before July 1925 and whose record therefore covers the whole 7 years, about 30 percent paid over 50 contributions in every year of the period—

of 8 years. In other words, 30 percent were regularly contributing and never drew a cent even in the 2 worst years of the depression.

(Continuing quotation:)

while nearly 20 percent paid an average of 46 to 50 contributions each year—and 46 a year is a pretty good contribution—

and a further 13 percent paid an average of 43 to 46 each year. Thus over 60 percent had a good employment record throughout the whole of the 7 years 1925 to 1932.

The baselessness of the American accusation that the "dole" encourages idleness is shown further by the fact that of all persons registered at the employment exchanges as unemployed on January 22, 1934, just about 2 months ago, of all those registered at the employment exchanges, 55.3 percent had been out of work for less than 3 months—of all those unemployed—while 12.1 percent more had been unemployed from 3 to 6 months. In other words, two thirds of the unemployed in England had been unemployed for less than 6 months, and the overwhelming proportion, 55 percent, for less than 3 months.

Evidence of the tremendous importance of the British unemployment insurance system to industry and the worker in maintaining purchasing power and morale and in aiding recovery was disclosed in a recent dispatch to the New York Times from Mr. Ferdinand Kuhn, Jr., its London correspondent, who has been touring the industrial areas of the country.

Although wages in England are nominally lower than those paid in the United States, the workers do not envy the position of labor in the United States, wrote Mr. Kuhn. The following is quoted from Mr. Kuhn's dispatch of a few weeks ago:

Far from feeling sorry for himself because of low wages, the British factory worker is busy and happy, and, above all, he feels secure. If he feels sorry for anyone it is for the workers in other countries who have no such system of unemployment insurance, health insurance, and old-age pensions as he has. It is not easy to describe the assurance, the sense of security for himself and his family, which the unemployment insurance system has given the British worker. It is the one great certainty in his life; the one thing which has kept his outlook sound and sane during the long years of depression * * *. The workers here say they would not trade their security for any fancy wage no matter how high they are. * * * Six or eight years ago the American worker was the envy of

everyone; but today he is pitted by men who are earning less than one half of what he earns.

As to the opinion of the industrialists toward the insurance scheme, continues Mr. Kuhn, they are—

just as devoted to the unemployment insurance and would not give it up without a struggle. It has kept a certain amount of purchasing power in the community even in the worst years of depression.

Clearly there is enormous purchasing power stored up in this country—

Mr. Kuhn concludes,

and some of it is bound to be released as the recovery gathers strength. * * * Some of it must be at work already in the revival of the home market which almost every industry is experiencing.

Indeed, it would seem that after 5 years of deepening depression there can no longer be any doubt as to the imperative need of an adequate system of compulsory unemployment insurance.

The comparative history of Great Britain and the United States, despite the greater economic difficulties of Great Britain, clearly shows that Great Britain has weathered the depression better than we have done; that the British index of unemployment has never during the entire period of the depression reached a greater peak than 23 percent; whereas ours has reached sometimes as low as 35 to 40 percent.

As I say, the history of these two countries indicates clearly what a system of unemployment insurance can accomplish for the maintenance of purchasing power, and, therefore, for the upkeep of industry.

The Lewis bill, which is before your committee, offers, in our opinion, the best possibility in the United States for the introduction of an adequate plan for unemployment insurance. I shall not repeat what has been said to you this morning about this bill. You know its provisions. All I want to add is simply that the bill does offer the possibility of ultimately doing what we all desire, namely, to enact an adequate system of unemployment insurance.

Now, in passing, may I say that if your committee finds that 5 percent is perhaps too much to put over at this time, you may be able to reduce it somewhat and still, I believe, meet a considerable proportion of the problem, even if you have to reduce it, because ultimately I personally hope that the State plans that will be inaugurated will provide for some slight employee contribution and perhaps also for a State contribution, so that together there can be an ample fund stored up to provide for the major needs of the problem.

Thank you.

Mr. FREAR. How do the rates in Great Britain, Mr. Epstein, compare with the rates that are set forth in this bill? That is, only the minimum rates which are to be granted to the employee, but the imposition of the tax?

Mr. EPSTEIN. In England there is this difference: In our case, under the bill which is before you, the whole cost is put on one body, that is, on the employer. Therefore, it has to be fairly large. In England they distribute it equally between the employer, employee and the Government.

Mr. FREAR. That is what I wanted to inquire about. Does the employee make a contribution?

Mr. EPSTEIN. The employee makes a contribution in England.

Mr. FREAR. What is the percentage?

Mr. EPSTEIN. The employee pays one third, I think.

Mr. FREAR. The employee pays one third?

Mr. EPSTEIN. That is a straight one third, and the employer and the State pay the remainder.

Mr. FREAR. The employee pays one third?

Mr. EPSTEIN. The employee pays one third, the employer pays one third, and the Government contributes the final one third. Personally, I believe that the employee contribution in England is a little bit high. I do not think it is fair to assess the employee an equal amount of contribution as is assessed upon the employer or the State. I believe that the employees should contribute but I believe that their share should not be so large.

Mr. FREAR. What is the practice in the other countries of Europe, so far as you know? Have you made a study?

Mr. EPSTEIN. All of them have employee contributions.

Mr. FREAR. Employee contributions?

Mr. EPSTEIN. Yes, sir. The first country proposing not to have employee contribution is America. Most of the countries do assess employee contributions.

Mr. FREAR. What is the objection to that?

Mr. EPSTEIN. The objection is this: That labor in this country takes the attitude that under the present system the worker makes enough contribution in unemployment without making direct contributions. They say:

Even if you have the best system of unemployment insurance and pay us the full amount when we are out of work, it is only a small wage, \$10 or \$12 a week. You require a waiting period of 3 to 4 weeks before we can get the benefits. You do not pay us for the full period of unemployment.

Therefore, labor takes the attitude that the worker makes enough of a contribution that he really should not contribute to this fund.

Mr. FREAR. What is the difference between the attitude of labor over there and the attitude of labor over here? What is their reason?

Mr. EPSTEIN. There is a difference between labor on the Continent and the British labor movement. On the Continent, so far as I have been able to study it—and I talked to people on the Continent and in different countries—the labor people, say, in Franco and other countries that they are in favor of it and that the workers have been perfectly willing to pay a contribution. The British people have taken the same attitude that labor takes in this country but they have gone along. Theoretically they do not accept it in principle. The International Organization—not the League of Nations, but the trade union—has definitely come out for employee contributions. They are willing to do it. Labor in this country takes the attitude that labor in England takes, namely, that the worker has paid enough and that he should not make a direct contribution.

Mr. FREAR. Do they over there take an actual part in determining minimum wage rates and questions of that kind. That is, I mean do the labor unions take such part?

Mr. EPSTEIN. In what way do you mean?

Mr. FREAR. I am trying to ascertain if there is any difference in the attitude of the laboring people over there and the laboring people here, that is in regard to this employee contribution. Do the labor people over there take an active part in legislation?

Mr. EPSTEIN. Very much so; more so than here, I would say.

Mr. FREAR. More?

Mr. EPSTEIN. Yes, sir.

Mr. FREAR. That is, in determining minimum wages, standards of wages, and questions of that kind?

Mr. EPSTEIN. They have laws, of course. In most European countries they are far more advanced in this kind of laws than we are. I cannot tell you the exact situation on the matter of minimum wages.

Mr. FREAR. In what respect is there a distinction?

Mr. EPSTEIN. I think, first of all, they are more active in the political field and, therefore, more active in the legislative field. Labor is better organized. It commands more power in the Parliaments. In the last 10 or 15 years it has been able to control ministries and cabinets, and, therefore, has been able to take direct part in enacting this kind of social legislation. In England, however, it is curious to note that most of the legislation was introduced or sponsored by either the Liberal or the Tory governments.

Mr. FREAR. One more question. In case of strikes and questions of that kind, that is, if there is a voluntary strike on their part, are they then maintained by means of these contributions?

Mr. EPSTEIN. When a man is on strike, he is not allowed to draw benefits, if he is voluntarily out on strike or even in a lock out.

Mr. FREAR. What is the attitude in that regard under this bill?

Mr. EPSTEIN. This bill, if I am correct, does not provide benefits for men during strikes. It says this: That a man is not compelled to take a job as a strike breaker. Of course the laws of Europe prohibit that also. That is, no European country would pick a man to be a strike breaker and deny him benefits if he does not want to take the job. That is exempted in all unemployment insurance plans.

Mr. FREAR. Take this for example. Here is a man in a labor organization and the organization determines, without any question on his part, that they shall have a strike. Then he receives no benefit?

Mr. EPSTEIN. He is out of luck. Because if you would do that you would practically be subsidizing strikes, and I do not think you care to do that.

Mr. FREAR. I get the idea, but I wanted to know what they do over there.

Mr. EPSTEIN. They do not permit it, but they permit the people to strike and do not force them to take jobs as strike breakers.

Mr. FREAR. Do they have many strikes over there? I was inquiring about that. I mean, for instance, in the coal industry and other industries in England.

Mr. EPSTEIN. They have strikes, I suppose, the same as we do. They have not had any big ones recently.

Mr. FREAR. We have not had any big ones recently.

Mr. EPSTEIN. I have been in England several times, and I think I am familiar with the general problem, and I have studied the plan thoroughly, and I have written books on it, and I will say this much: That I do not think anything has done more to stabilize Great Britain from the point of view of its social stability, of its Governmental stability and in its patriotism than the comprehensive system of social insurance which England has adopted.

I should say that today England stands as the outstanding country with the most comprehensive system of social insurance, more comprehensive than that of any other country. In England today it is

really true that no man or woman has starved in the past 10 or 12 years.

Mr. FREAR. Does the fact that that system provides for contribution by the employee have any influence upon strikes, so far as they are determined over there?

Mr. ERSTEIN. I do not think that would have anything to do with it.

Mr. FREAR. Here is a man who gets into a strike, and he does not get any assistance, and yet he is making a contribution to that fund—

Mr. ERSTEIN. You are afraid he might lose his benefit that way?

Mr. FREAR. How does he make his contribution?

Mr. ERSTEIN. In England it is weekly. It is deducted from his pay.

Mr. LEWIS. It is deducted at the pay office?

Mr. ERSTEIN. It is deducted at the pay office. The employer is made responsible. In their social insurance scheme the employer is always made the collecting agency. He deducts the employee's pay. In England they have a system of books, which is a little complicated, and other Continental countries do not follow the system, and I do not think we would have to follow it, but they have a system where a man carries a book and for every week the deduction is made for his contribution, a postage stamp is put on, which the employer buys at the post office, and every 6 months or so that is checked up, and so forth.

It is a very interesting system and it is done very beautifully, and there is no stigma attached to the dole. They have a register in each exchange. A man is supposed to report daily for work. All he has to do is to sign a register. They have everybody lined up, in 15-minute tricks, and everybody makes his report. He will report from 10 to 10:15 or he will report from 2:15 to 2:30 and they have no crowds, and there will be three or four hundred for each 15-minute period. The men line up and all they have to do is to show their card to the clerk at the desk. They have a classification system which indicates whether a man is a carpenter or in some other trade. The clerk knows if there is a call for a carpenter, because that is clear to him from the file. If this man is a carpenter, and there is a job for him, he makes out a slip, and he goes out to look for the job, and he does not register for that day, and he reports back after seeking the employment, if the employer did not give him the job. In that event the prospective employer signs the slip that he cannot use him, and this man comes back to register. If, on the other hand, there is no job available, all the man does is to sign the register and on Friday he comes for his pay, which is pay day, and all he has to do is show his registration card, with five signatures, and then he moves over to the pay window and gets paid.

Mr. FREAR. How do they pay?

Mr. ERSTEIN. It depends on the number of dependents in the family. It starts with 15 shillings a week and may go up to 30 and 33.

Mr. FREAR. Is there any difference in the character of employment?

Mr. ERSTEIN. Not in England. They do not depend on wages. It is on a flat basis.

Mr. FREAR. What is the situation in that regard under this bill?

Mr. EPSTEIN. This bill leaves it entirely to the States as to what they shall do.

Mr. FURER. Under this bill it provides a relief plan, which goes to every unemployed man, irrespective of what his employment or industry may be.

Mr. EPSTEIN. You mean the Lewis bill?

Mr. FURER. The bill before us.

Mr. EPSTEIN. No; it limits it. There are limitations there. I mean, for instance, it covers for the present only employers with 10 workers or more. It exempts certain people who would not come in under this law. In other words, it is true as Miss Perkins and other persons who have preceded me have said, that it is not a cure-all or a panacea but I believe, like the rest, that it is a wonderful start. I do not believe there is any possibility of our solving 100 percent of any problem, but if we solve the problem 50 to 60 percent, for a while, we are doing well.

Mr. FURER. That is true, but what I mean is this: Here is a man who is a carpenter, and here is a man who is a coal miner. Does each one receive the same proportionate relief under the conditions which obtain with respect to them or is there a difference because of their occupations?

Mr. EPSTEIN. This bill would leave it to the State to determine what kind of benefits and the rates that are to be determined. This bill sets up a minimum requirement of \$7 a week. For instance, your plan in Wisconsin, which I personally disagree with completely--

Mr. FURER. Why is that?

Mr. EPSTEIN. Why is that?

Mr. FURER. I am trying to find out your objection.

Mr. EPSTEIN. My objection to the Wisconsin plan is primarily because it is not an insurance plan; that it is not a secure plan; it is not a guaranteed plan. That is, it leaves too much on a "if and maybe" basis. Your plan says to each employer--

You set aside 2 percent of your pay roll until you accumulate \$50 for each worker, and after you have accumulated \$50 for each worker, then you reduce your contribution to 1 percent until you accumulate \$75, and after that you do not have to make any contributions until the fund goes down.

Then it says to each worker --

When you are unemployed, you can only look to the fund of your particular company for benefits.

Mr. FURER. Yes, sir.

Mr. EPSTEIN. I say that is an "if and maybe" plan, because all you are telling the worker is this:

If your company really has been able to save enough money, if your company continues in business, if your company has a fund, and if nobody else has drawn the fund out already, then maybe you will get the benefits.

Mr. FURER. That was brought out by Miss Perkins this morning, each State adopts its own plan, and it is determined whether they come under the benefits. You would not have that in the States with that system.

Mr. EPSTEIN. Frankly I wanted to hide that, but since you have raised the question I might as well say-----

Mr. FURER. Then they would join in because of the fact that they were all taxed the same?

Mr. EPSTEIN. Yes, sir; but I would say this, Mr. Frear: Under this bill you permit any plan, either the Wisconsin plan or others, but in particular States we are definitely opposing and fighting the Wisconsin plan. In other words, I should not like to see any State adopt the Wisconsin plan. But this bill would not interfere with that. This bill simply leaves it to the State to adopt any plan. It is up to us to see that the States adopt a decent plan.

Mr. FREAR. They have done better than any other State.

Mr. EPSTEIN. That remains to be seen.

Mr. FREAR. Have they not? What State has done better so far?

Mr. EPSTEIN. They have placed this plan on the statute books.

Mr. FREAR. You have to adopt what you can get enacted. What State has done better?

Mr. EPSTEIN. None so far, but we hope that we will get something better in the near future.

Mr. FREAR. You are getting to the millenium, which we are all hoping for.

Mr. REED. You stated that England has the ideal unemployment insurance law. How near do the provisions of this bill approach the provisions of the English law?

Mr. EPSTEIN. This bill does not approach the English law, for this reason: That this is really not a bill in its full terminology. This bill merely advocates the adoption of State plans. There is no reason why, under this bill, any State could not set up a plan exactly on the lines of the English plan. There is nothing to prevent the setting up of a State law, under this bill, that would not qualify under the same benefits. So that when you are dealing with this bill you are really not dealing with a completed scheme of unemployment insurance. You are dealing with an important matter to force States or to induce them to come in and adopt a decent scheme.

It is up to all of us in the different States, as Miss Perkins stated, to fight for the best possible scheme. This bill would help the movement very much, however.

Mr. LEWIS. Just one question, Mr. Epstein. You spoke of the physical volume of production in England having sunk to only 81 percent. What year did that have reference to?

Mr. EPSTEIN. 1932.

Mr. LEWIS. In Germany you said it sank to 67 percent. Was that the figure?

Mr. EPSTEIN. In Germany it sank to 56.9.

Mr. LEWIS. What year was that?

Mr. EPSTEIN. That is for the same period. I am taking the same period. That is the middle of 1932.

Mr. LEWIS. And here in our own country what was the figure?

Mr. EPSTEIN. 51.3 for the same period. That is 1929-32.

Mr. LEWIS. Thank you very much, Mr. Epstein.

Mr. LEWIS. Now, Professor Douglas, may we have your help? May I say to the committee, before the professor begins his remarks, that you can assume that he can answer any questions that are relevant to this matter, statistically and socially. He is modest, I know, but he has given the public the benefit of a most excellent work, in which this whole subject is discussed comprehensively and in detail.

Mr. DOUGLAS. That is very kind, Representative Lewis, but I am sorry to say that I am afraid it is not true. I do not guarantee to be

able to answer all questions, even on unemployment insurance, but I will try to do the best that I can.

Mr. LEWIS. Now, will you proceed in your own way, Professor? Perhaps you better give us a few general remarks, and then we hope to have the other members of the committee back from the House to hear you discuss the details of the bill itself.

**STATEMENT OF PAUL H. DOUGLAS, OF WASHINGTON, D.C.,
PROFESSOR OF ECONOMICS, UNIVERSITY OF CHICAGO, AND
MEMBER OF CONSUMERS' ADVISORY BOARD, NATIONAL
RECOVERY ADMINISTRATION, DEPARTMENT OF COMMERCE**

Mr. DOUGLAS. I will make a general statement and then discuss certain sections of the bill.

The experience of this depression should have taught us all the necessity for a more adequate, a more certain, and a more self-respecting way of taking care of those good men and women who, though wanting to work, have been deprived of their jobs through no fault of their own. For when men were thrown out of their jobs, they had to use up savings, stint their families and in many cases borrow from their friends and relatives before relief could come. And when this relief was given, it was in general strikingly inadequate since the average amount paid out a year ago was \$21 a month per family.

This amounted to about \$4.50 a month or 15 cents a day per person. The relief, moreover, has been until recently highly uncertain and with frequent interruptions as the private charities fell back upon local public funds, the localities upon the States, and the States upon the Federal Government. It has been until recently extremely humiliating because it has been associated in people's minds with charity which no self-respecting person wishes to receive. We in America have therefore had the worst kind of a dole and it is high time that we set about changing it.

The best way of doing this is to institute a system of self-respecting insurance against involuntary unemployment, which will serve as the front-line trench in the war against destitution. The essential features of such a system are simple and may be described under four sets of principles.

First, an area of eligibility is staked out consisting of all employed manual workers except those in certain exempted occupations such as agriculture, public service, and so forth, and of all salaried workers under a given limit, such as \$200 a month. Within these areas, workers who are customarily a part of the working force and who have been employed for, say, 36 weeks in the 2 preceding years or 20 weeks in the preceding year are eligible.

I may say, to make myself clear, that I am not at the moment discussing this specific bill but the general features of this matter, which are really basic.

Second, workers who lose their jobs because of a decline in business and through no fault of their own register at a public employment office and after a waiting period, which I believe should be approximately 3 weeks, are eligible to receive benefits for a limited period of time as long as they give evidence to the employment offices that they are unemployed.

Third, every effort is made to prevent the unemployed from remaining idle to draw the benefits. Thus if a worker refuses employment at his trade at approximately the going wage he cannot receive benefits. The benefits, moreover, should always be appreciably less than his customary wage and never, in my opinion, should exceed two thirds and generally only half of the customary wage. Finally, the unemployed worker may be required to show that he is himself genuinely seeking employment in addition to following up the opportunities which come to him from the public employment offices.

Fourth, the benefits are limited to a stated number of weeks per year, which I believe should be from 16 to 20, and the liability of the fund should cease at this point. Those who are still in need at this time should, in my opinion, then be taken care of by a system of public relief graduated according to needs, to which the Federal Government may well make a contribution, and in return for which the recipient may well be required to give work on public projects which would be somewhat similar in character to those now under the C.W.A. That is precisely the point which Mr. Hopkins made this morning. We would have insurance, then, as the front-line trench and public relief as the second-line trench.

Mr. FREAR. May I ask a question there?

Mr. DOUGLAS. Yes, sir.

Mr. FREAR. You stated a certain number of weeks, with 20 as the maximum.

Mr. DOUGLAS. Yes, sir.

Mr. FREAR. Suppose a worker exceeds that, then what does he come under?

Mr. DOUGLAS. A general public system of relief.

Mr. FREAR. Independent of insurance?

Mr. DOUGLAS. In general, independent. It may be that the benefit should be paid out through the public employment office but the sources of funds would be independent.

Mr. FREAR. What proportion under present conditions would that have been?

Mr. DOUGLAS. It is pretty hard to say because that would depend on the point in the business cycle in which you were.

Mr. FREAR. I mean during this present period.

Mr. DOUGLAS. If we take April 1930 as the test, about 750,000 out of a total of 2,430,000 had been unemployed for more than 18 weeks, or, roughly, around 30 percent in 1930. I suppose that at present it would be more than 30 percent.

Mr. FREAR. I was going to say that it has been growing since 1930.

Mr. DOUGLAS. Yes, sir.

Mr. FREAR. So that it would be much larger.

Mr. DOUGLAS. Yes, sir.

Mr. FREAR. That would throw the burden upon the locality?

Mr. DOUGLAS. No, sir; I think the Federal Government should make a contribution to that second line of defense. Of course, in the more prosperous years it would be less than 30 percent who would exhaust benefits.

Mr. FREAR. Your suggestion is from two thirds to one half?

Mr. DOUGLAS. Yes, sir.

Mr. FREAR. What about that in this bill which is before us?

Mr. DOUGLAS. This simply fixes certain very low minima to which States shall conform, but it does not specify the specific type of provision which the State should make.

Mr. FREAR. Or the maximum amount which should be allowed?

Mr. DOUGLAS. Or the maximum.

Such a system would not only provide for more adequate and self-respecting relief than that which has been given, but it would lessen the amount of unemployment itself. For if the system is properly administered, a large part of the premiums collected during the years of prosperity will not be spent then but will instead be accumulated and paid out during the years of depression. Purchasing power will thus be built up at the time when it is most needed with a resultant greater stabilization of employment in industry. In addition, a large part of the burden of unemployment will be taken from the relatives of the unemployed, the merchants, doctors, landlords, and local real-estate taxpayers.

Now, the greatest difficulty in the way of the States adopting such a sensible system is, of course, the fear that the premiums required will put their industries at a competitive disadvantage with those of States which have not passed such laws. It is this vital defect in our governmental system which has brought stalemate to so much vitally needed social legislation and has in the past reduced nearly all true lovers of our country to what has bordered upon despair.

A way out of this dilemma has, however, been offered by the bill now under consideration.

This bill, as you know, levies an excise tax of 5 percent upon the pay rolls of concerns employing 10 or more workers, but with the vital provision that there will be rebated back to these concerns any amount which they may pay in for unemployment benefits or contributions under State laws which come up to minimum standards.

This, to my mind, is a truly brilliant method. If this measure is passed, there will be little or no reason why any of the States should not pass some kind of unemployment insurance law, for the State law would not heap any added burdens upon the employers in these States since any contribution which they would make to the State systems would mean that they would merely pay that much less to the Federal Government, and keep those contributions at home.

Secondly, the States which did not pass such laws would have no competitive advantage, since they would have to pay as large a total amount, all of which would go into the Federal Treasury.

Mr. FREAR. The same principle?

Mr. DOUGLAS. Yes, sir. Finally, the Federal money could be at least partially used for relief, and thus form the second line of defense against destitution due to unemployment. And yet it should be noted that the Wagner-Lewis bill leaves the States free to adopt the kind of unemployment insurance which seems to them best and permits them to carry on the experimentation which is so valuable, and decentralizes the administration at the same time.

This is federalism at its best and I cannot commend too highly the statesmanship of the drafters and sponsors of this measure. Unemployment insurance and old age pensions are needed if we are to make the new deal really effective. For there is implicit in the new deal not merely a program for recovery, but for reform and security as

well. The men and women of this country need greater security and the Government has begun to move in this direction. It has poured billions of dollars into banks, railroads, and insurance companies through the Reconstruction Finance Corporation. I do not object to this. It has also put in enormous sums to protect homes and farms from being foreclosed. This is all to the good. But it would manifestly be unfair to stop here and to deny protection to the groups which need it most, namely, the industrial workers who lose their jobs through no fault of their own and who have little property or savings to pull them through. Surely if we are trying to make life more safe for American citizens, we shall want to start with this class instead of entirely omitting them.

I should, moreover, like to deal with the objection that such an act can only protect us against future unemployment and will not help us to take care of those who are at present unemployed. There are two answers to this. The first is that the time to build protection against future depressions is now when the evils of the present lack of system are evident and widely acknowledged. If we wait until prosperity returns, the memory of the present distress will have largely faded from men's minds and we are likely to try to muddle through again with even more disastrous results when the next depression breaks out. Let us not be like the proverbial squatter who didn't mend his roof when it rained because he said he couldn't, and did not mend it when the weather was fair because he didn't need to do so. Let us instead start now.

The second answer to this objection is that by a slight change the Wagner-Lewis Act itself can be used to help finance current relief, and hence to help solve a problem which is likely to become severe with the shutting down of C.W.A. and the throwing of several millions of workers back upon local charity or their own resources. This could be done by specifying that the amounts which are thus raised for the Federal Government by the 5 percent tax shall be used, in part, at least, for relief.

I am aware that there are constitutional difficulties in connection with that, but the relief program could be at least based on the knowledge that this money is to come in.

Mr. FREAR. This money will not come in until July 1, 1936.

Mr. DOUGLAS. You could set the effective date back so that the money would come in commencing with the taxable year of July 1, 1934, could you not?

Mr. FREAR. You mean make it retroactive?

Mr. DOUGLAS. It could be carried back, could it not?

According to the present pay roll rates, this would probably yield not far from one billion dollars a year, and this should provide for most of the urgent relief needs of the country until unemployment insurance became very widespread.

I may say that I made an entirely independent estimate from that of the Bureau of Labor Statistics, and I came out at almost the same identical figure.

An assessment of only 3 percent would probably net not far from \$600,000,000 and this would be of distinct help. I should in all honesty somewhat qualify my suggestion on this point, since I believe for a considerable period of time it will be better to create monetary purchasing power rather than merely to redistribute it as this measure

contemplates. I would therefore favor financing relief for some time, by either Government bonds or a guarded issue of Treasury notes, rather than by taxes. And even if taxation were used, I would prefer to have the sums met from income and in some degree inheritance taxes, than from a tax of this character which is, after all, somewhat similar to a sales tax. But if none of these steps are taken, it is certainly better to take care of the needy in this fashion than not to take care of them at all.

Not being a constitutional lawyer, I should perhaps stop here. The very fact that I am not one may, however, account for my pushing on to make a few remarks about the constitutionality of this measure, because there is a tendency on the part of all Americans to speculate about the constitutionality of anything.

It will be alleged that this act is unconstitutional because it aims to use the revenue powers of the Government to accomplish a regulatory purpose, and your body and the courts will undoubtedly be told this is an unconstitutional exercise of powers in the light of the decision of the United States Supreme Court in the *Second Child Labor case*. To my untutored mind this does not follow. As I read that decision, however, it merely says that the taxing power may not be used to accomplish a purpose which is exclusively regulatory in nature and which does not contain any real provision to obtain actual revenue. It expressly implied that some regulatory features could be bound up in a revenue measure, and it should be noted that the law taxing the coloring elements in oleomargarine is still valid.

I would, therefore, expect that even though the Supreme Court were of the same social philosophy as in 1923, it would still hold this bill to be constitutional, since it most distinctly has revenue as well as regulatory features. And that there has been a change in the philosophy of the Supreme Court is evident from the *Minnesota Mortgage* and the *New York Milk cases*.

I hope, therefore, that this bill may be speedily and favorably reported out of committee to both Houses of Congress and that it be passed by them. This will open the way for the passage of unemployment insurance laws during the coming sessions of the various State legislatures.

Mr. LEWIS. Are you through with your general statement, Professor?

Mr. DOUGLAS. Yes, sir.

Mr. LEWIS. If you have a plan of your own, of course it would be desirable for you to tell us about that. If you have not I suggest that you take up the bill and describe the various portions.

Mr. DOUGLAS. I did not participate in the drafting of this bill. I have read it over several times, but I do not pretend to interpret it in any authoritative fashion, and if I err in any respect, I hope Mr. Eliot, who has had a more intimate contact with the bill than I have had, will correct me.

Mr. LEWIS. We will get his help, too.

Mr. DOUGLAS. As I understand, Mr. Chairman, section 1 primarily refers to the types of industries and the employers upon whom the excise tax of 5 percent will be levied, and that it does not refer to the types of persons who would be covered in any State unemployment insurance law. The States would be free to adopt a different

scheme, but this is merely for the purpose of the revenue feature of the act.

Mr. FREAR. Are there contributions made by these other companies which come in?

Mr. DOUGLAS. Let us take a concrete point, Representative Frear. This act specifies that it shall apply only to firms employing 10 or more workers. Firms employing fewer than that number would not pay a Federal tax. But a State government could pass an unemployment insurance law which would cover firms employing fewer than 10 workers, but it would be up to the particular State to do so.

Mr. FREAR. What proportion would be paid to the State? Just the amount they contributed?

Mr. DOUGLAS. There would be credited to the account of the individual employer only those amounts which are paid in by the firms employing 10 or more workers. The other men would not have a Federal tax at all but would merely pay contributions to such State system as is set up or included them.

In the definition in section 1 you will find that it applies, as I say, to firms employing 10 or more workers, but excluding the Federal Government, the governments of the several States, municipal corporations or other governmental instrumentalities. And the succeeding sentence really deals with the question of subcontract labor.

It is highly important to bring that labor in because in certain industries, notably the clothing industry, it will be possible for a contractor to have 20 subcontractors, each one of whom would be employing five workers, and if you treated the subcontractor as the unit, they would all be exempted, but the attempt here is made to make the contractor contribute for wages paid to workers hired by subcontractors, unless in those cases where the subcontractor himself employs more than 10, the subcontractor and the main contractor agree that the subcontractor shall make the payment.

That, I think, explains the first paragraph.

The second paragraph is obvious except you then have the eight specific classes of industry who, even though they employed 10 or more workers, would be exempt from paying the Federal tax, agriculture labor, domestic service, teachers whether in public or private institutions, physicians, surgeons, internes and nurses, physically handicapped people in charitable institutions, but physically normal persons in charitable institutions would still be liable for the tax; employment within the family; and there would also be exempted employment by common carriers subject to the provisions of the Emergency Railroad Transportation Act of 1933.

Mr. LEWIS. Would you make some explanation as to that exemption, if you are familiar with the matter?

Mr. DOUGLAS. The whole issue of carriers actually engaged in interstate commerce is a somewhat complicated one.

Mr. FREAR. We have some similar bills in Congress now, have we not?

Mr. DOUGLAS. I was not aware of that.

Mr. LEWIS. Yes, sir; there are, Mr. Frear, a couple of bills now pending before the Interstate Commerce Committee of the House.

Would the circumstance that those interstate carriers embrace pay rolls that are common to a number of States, and thus would not be under the reach of complete treatment by any single State, be one

of the explanations? A factory wholly within a State is subject to complete treatment by the legislation of that State.

Mr. DOUGLAS. Yes, sir.

Mr. LEWIS. A railroad crossing State lines would have the same set of employees but might have two different systems of insurance obligation.

Mr. DOUGLAS. Any State unemployment insurance law probably could not include employees engaged in interstate transportation, including Pullman employees. It perhaps could not include employees engaged in the transmission of interstate messages, though that would be more doubtful. It certainly would not include employees in the shipping industry, and from the decisions of the Supreme Court, probably not employees engaged in longshore work.

It is my own belief, if I may interject a point here, that it would be necessary and advisable for Congress sometime to pass an act which will put unemployment insurance into effect for this class of employees because they will not be covered by State laws.

It is my own belief, also, that probably a smaller rate of premium will and can be charged these workers, because, with the possible exception of the railroads, their work is somewhat more steady, and they generally have the seniority system which gives a type of protection.

Mr. FREAR. What is the plan in other countries?

Mr. DOUGLAS. Under the British system, the railway employees are exempted, and Government employees are, of course, exempted.

Mr. LEWIS. Why would the railroad employees be exempted there?

Mr. DOUGLAS. Because they had a seniority system and they really asked to be exempted because they thought they had protection within themselves, and, therefore, did not wish to make contributions. As a matter of fact, during the twenties, of course, the rise of motor traffic in England has caused a decline in the number of persons employed on the English railroads, and a number of the railway workers would now like to come under the protection of the British Unemployment Insurance Act, but at present they have not yet been brought in.

Mr. LEWIS. In the beginning the seniors were willing to push their juniors off the raft in England to save a contribution?

Mr. DOUGLAS. I think that is a shrewd comment, but I will state that they also hoped that not many juniors would be pushed off the raft.

Mr. REED. I notice on page 3 under "(1)" "employment as an agricultural laborer."

Mr. DOUGLAS. Yes, sir.

Mr. REED. They are exempted. I was wondering whether that would include also a farm cooperative where they were employing quite a large number of men.

Mr. DOUGLAS. You mean such as in California, in the citrus-fruit industry?

Mr. REED. Yes, sir.

Mr. DOUGLAS. In the picking of oranges, for example?

Mr. REED. Exactly.

Mr. DOUGLAS. That would be excluded.

Mr. REED. I am speaking of the cooperatives. They have to employ men and it is a corporate set-up. I wonder if this needs to be amplified or if it is going to protect them.

Mr. DOUGLAS. You mean the people who might be working in the central warehouse?

Mr. REED. Exactly.

Mr. DOUGLAS. Yes, sir.

Mr. REED. And be really employed by a corporation and yet primarily engaged in agriculture, and yet they would not be classed as agricultural labor.

Mr. ELIOT. That very problem, Congressman, has arisen in connection with the imposition of an N.R.A. code on the citrus-fruit industry, and the wording of the agricultural act and the other act concerning agricultural labor probably should be defined in a good many instances in the course of this coming spring, in most of the places where the controversy has arisen, as to whether the work is agricultural or not.

Mr. REED. Do you not think it should be defined here, because, after all, the cooperatives are operated in the interest of the farmer, and they are just as much a part of his set-up as his daily labor.

Mr. DOUGLAS. Yes, sir. Of course, it is going to force you to define a "cooperative" in turn, because there will be a great many institutions which will suddenly become cooperative.

Mr. REED. Of course the idea now is to help agriculture rather than place a burden on it.

Mr. DOUGLAS. On page 4 you will note that the employers are to pay the assessment upon all wages paid to manual workers but not upon the wages paid to persons receiving more than \$250 a month; but for persons receiving up to \$250 a month, the lower group of white-collared employees, the assessment will be levied upon that class.

Mr. FREAR. What is the theory of that? That they should have a relief fund of their own?

Mr. DOUGLAS. No, sir.

Mr. FREAR. Or should have saved something, or what is the theory?

Mr. DOUGLAS. I think the assumption is that the acts passed by the State should, as far as possible, take into account the lower group of salaried employees, those receiving up to \$250. There has to be an upper limit somewhere. Above \$250 it is assumed that people ought to be able, out of their own savings, to accumulate enough to protect them against the ordinary period of unemployment.

Mr. FREAR. Suppose they fail to do it. Here is a man getting \$5,000 a year and he is out of a job and has nothing to eat.

Mr. DOUGLAS. He will be taken care of by means of public relief. I think there is a limit to the degree to which we should force insurance from the people. In the main, it should be a supplement to self-help, and it is because self-help is very difficult, if not impossible, for those in the low income groups that it should be stimulated for them.

I would call your attention to the fact that in line 22, page 4, unemployment funds which are to be recognized by the Federal act may include either the State fund, such as is proposed in Ohio, or a plant fund, such as is in effect in Wisconsin, or you might have an industry fund, such as is proposed by some in Minnesota. In other words this act leaves the slate absolutely clean on the type of insurance system which the various States may set up and it has a very broad basis of recognition.

Mr. FREAR. The limit as to which the Federal Government is bound is only the amount of money that is received from those State industries. That is, I mean to say, in returning the money back to the State.

Mr. DOUGLAS. To the employer.

Mr. FREAR. It is only based on the amount which they contribute?

Mr. DOUGLAS. It is only based on the amount which they contribute or a somewhat complicated provision which I shall touch on later, the amount which they would have contributed had they not been given a special discount for stabilizing employment.

Now, if there are no more questions upon section 1, I will pass to section 2, which is simple, namely, that the excise tax shall be equal to 5 percent of the pay roll as defined, payable quarterly, according to income-tax provisions, and that there may be credited to the employer the amount of contributions which he has actually made, or the amount of contributions which he would have made had he not received a discount for stabilizing employment within his own plant.

Now, I think it desirable in State laws that if a particular employer is successful in reducing unemployment by manufacturing fillers or by budgeting his production and producing in the off-season, then in those cases some reduction should be made in the premiums which he would pay to a State fund in order to induce him to stabilize.

Now, the question comes up: Unless you have some provision which will give him credit for those savings under this act, that would merely mean that he would pay so much more to the Federal Government and would effect no savings himself.

So that paragraph 2, from line 15 on, really deals simply with that provision.

Mr. FREAR. Under the ordinary tax law, however, you have a limitation as to the amount of those contributions, have you not?

Mr. DOUGLAS. You mean charitable contributions under the income tax?

Mr. FREAR. If it is to be a credit against their income tax.

Mr. DOUGLAS. You mean 15 percent?

Mr. FREAR. You have a limitation of the amount. There is no limitation whatsoever here. That is, a man might make any allowance.

Mr. DOUGLAS. Section (c) provides that the reduction shall not be an arbitrary one nor indeed shall the State reduce the rate which he would customarily pay during the period. It must be something which he has earned under long-standing State laws.

Mr. LEWIS. I think you had better make this phase of the bill plainer, by a concrete statement, if you will.

Mr. DOUGLAS. I have worked out an arithmetical illustration.

Mr. LEWIS. Perhaps you would prefer to have someone else do so.

Mr. DOUGLAS. I will make the effort.

Mr. LEWIS. I did not write those clauses.

Mr. DOUGLAS. It is a complicated matter, and perhaps a more simple way could be found to express it.

Mr. LEWIS. The statement may be entirely correct in application, but it is extremely difficult to form a picture of the circumstances under which this kind of credit is to be granted.

Mr. DOUGLAS. Congressman Lewis, for the sake of the record, would you like to have me give you a hypothetical illustration?

Mr. LEWIS. Yes, sir; I wish you would.

Mr. DOUGLAS. Let us suppose that this act goes into effect.

Mr. LEWIS. We will begin with this statement: An employer has contributed his 5 percent during the year as his tax, and he gets credit

for it, and he is discharged. Now, then, under subparagraph (1) he can also do something else, namely, he can ask credit for the amount by which these paid contributions were less than his largest required contributions under such law in any previous taxable year.

I think you will have to make the whole situation clear.

Mr. DOUGLAS. If it would not take up too much time, for the sake of the record, I will give his arithmetical illustration of what I believe the drafters of this measure intended, and then perhaps others can be found to describe it more in detail.

Let us suppose that a firm in 1936 paid into a State unemployment insurance fund 5 percent upon a pay roll of \$100,000, or paid in \$5,000.

Then let us suppose that in the year 1939 that pay roll decreased to \$50,000, and this firm was able, in spite of a previously decreasing pay roll to keep employment relatively stable, so that it paid in only 1 percent or \$500. Now, the difference between the amounts which it had paid in 1936 and 1939 would be \$4,500. The pay roll in 1939, in comparison with the pay roll in 1936, would be as 50 is to 100, or one half. This firm would therefore be given credit for one half of the \$4,500, or \$2,250, which it would have paid had it made the 1936 rate of contribution. It would be given credit for that \$2,250, plus the \$500 which it actually paid, or a total credit of \$2,750.

Mr. FREAR. You have made it very clear but the difficulty is we are not familiar enough with the bill to follow it.

Mr. LEWIS. Let us get back to what happened in the factory in those years and the number of employees.

Mr. DOUGLAS. Let us take a simple case of where the pay roll is the same in both years, \$100,000 in 1936 and \$100,000 in 1939.

Mr. LEWIS. He is liable for \$5,000 in each year.

Mr. DOUGLAS. He is liable for \$5,000 in each year, but he only pays in 1939 \$1,000. Now, if you merely give a credit—that is, he paid to the State fund \$1,000.

Mr. LEWIS. He paid to the State fund \$1,000.

Mr. DOUGLAS. Yes, sir; because he has stabilized his employment. If you merely give him credit for the \$1,000, what you do is take away from him the \$4,000 which would have been his under the State law, and you simply turn it over to the Federal Government.

Now, should he not be given credit for the \$5,000?

Mr. LEWIS. Whereas other employers, members contributing to the fund, have not stabilized and they pay the full 5 percent.

Mr. DOUGLAS. And they get the credit.

Mr. FREAR. That could be worked out.

Mr. LEWIS. Suppose you were to resort to a method of effecting this stabilization that would reduce the number of employees, and work a mischief, in violation of the purposes of the act, and yet take credit.

Mr. DOUGLAS. But those workers who had been laid off by him would be eligible for jobs and for insurance.

Mr. LEWIS. Let me be concrete. Because of carelessness or indifference on his part he has had a seasonal trade. He employed 500 men for 6 months.

Mr. DOUGLAS. Yes, sir.

Mr. LEWIS. Very well. Now, it is made profitable for him to work the whole 12 months, and he can do it with 250 men. Two hundred and fifty men have lost their share of that employment.

Heaven only knows whether they have got it somewhere else or not, and he is to be exempted from the payment of the 5 percent, when the 5 percent may be necessary.

I am just raising that point. Is that situation involved?

Mr. DOUGLAS. Representative Lewis, in the act of reducing the total force from 500 to 250 workers, he would have laid off 250 workers, who, if the State laws were properly drawn, would then be eligible to benefit, and would be chargeable to his account during the period when he is reducing his force.

Mr. LEWIS. If his stabilization were perfect and he worked every day in the year, he would not have to pay any.

Mr. DOUGLAS. In the process of getting down to the lower level, he would pay and when he gets to the lower level, he would have encouraged stabilization at that lower level.

Mr. LEWIS. A stabilization of that sort would mean that 250 less men would be unemployed. Five hundred men were unemployed 6 months in the year before, and 250 would be totally unemployed now. I am not making an argument but trying to develop a situation so that we can apply these rules to it.

Mr. DOUGLAS. Yes, sir. Do you wish to have me make an answer to that question?

Mr. LEWIS. Yes, sir.

Mr. DOUGLAS. I would say, in the first place, that it is much better that industry should give full employment for a smaller number of men, as a long-time policy, than diluted employment for a larger number of men. Those men who would be squeezed out of the industry would register with public employment offices and an attempt would be made to place them in other industries.

Furthermore, it should be remembered that the persons employed in the original industry would now be earning twice as much as before, since they would be working twice as much time, and, therefore, their purchasing power would go up, and presumably the 250 workers squeezed out would be able to find employment.

Mr. FREAR. How does that question come in?

Mr. LEWIS. When you are considering the stabilization clauses under the bill, are there any other devices suggested than this tax credit device?

Mr. DOUGLAS. Of course, one of the arguments in favor of stabilization by individual firms lies behind the Wisconsin Act, that if an employer only has to pay out for such unemployment as occurs within his own plant, he will try to reduce that unemployment in order to reduce his direct cost. That is the direct method of treating the question.

The indirect method would be under such a law as proposed in Ohio, to have the employees contribute to a central fund but to give rebates back to the firm, which is able to reduce its unemployment below the average for its given industry. Now, it is my own belief that the stabilization which can be effected by individual firms is relatively small in comparison with the stabilization which can be effected by public policy, because I think the stabilization by individual firms will primarily cover the lessening of seasonal unemployment, and that the major source of distress comes from cyclical unemployment; that individual employers will refuse to help in the face of cyclical unemployment, and if we are to stabilize cyclical unem-

ployment, we shall need public works policy, relief policy, and banking and credit policy, which can only be put in by the Federal Government.

Mr. LEWIS. I would like to add this additional question: Do these criteria here, (b), (1), (2), (2)-(a), (2)-(b), and (2)-(c) provide standards by which the credit could be enlarged on any mathematical line?

Mr. DOUGLAS. Yes; I think so. That is, not illegitimately enlarged but enlarged in the way of stabilization which in the opinion of the State, under its act, he was able to effect.

Mr. LEWIS. Here the Federal authorities would have to determine the amount of his credit for stabilization results achieved. The standards set out here are sufficiently definite to enable them to do so beyond question? I am asking the question without any view as to what the answer may be.

Mr. DOUGLAS. Normally speaking, I presume that these claims for credits would be filed by the individual employer, and that he would make out his claim for credit, just as he does in the case of income-tax payments, and those could be reviewed, and there would be the records of the individual as to unemployment insurance, to check up with, so that it could be run down fairly well. The wording is clumsy but I think it could be done.

Mr. LEWIS. Let me make my question complete.

Mr. DOUGLAS. I am sorry.

Mr. LEWIS. If he had in his employ 10 men on the 1st of January, the first of the year, and at the end of the year he showed that there had been a different situation. Suppose there were 300 days of employment, which is possible. Then he showed 10 times 300, or showed 3,000 working days. Then he would be entitled, under these paragraphs, to a complete credit of 5 percent?

Mr. DOUGLAS. Only if the State completely exempted him from payment.

Mr. LEWIS. The State at last will determine what consideration will be given such instances under State legislation? Is that correct?

Mr. DOUGLAS. Yes, sir. Take Wisconsin. There an employer pays 2 percent, usually, until the time arrives that a reserve is accumulated equal to \$50 for each worker, and 1 percent thereafter until the reserve gets up to \$75. Now, suppose that an employer had a reserve of \$75 already accumulated and paid in no contributions at all during that year. Then he would be credited for the 2 percent which he would have paid in. And if he had a reserve of between \$50 and \$75 during the year and paid in 1 percent, he would be credited with 2 percent, namely the 1 percent which he paid in plus the 1 percent which had been rebated to him.

Mr. LEWIS. All right. Proceed.

Mr. DOUGLAS. Section 3 really lays down the conditions, the minimum conditions, to which the State law should conform, namely, that the unemployed shall receive cash benefits as a matter of right, and that the benefits shall commence not more than 12 months after the passage of the law. In other words, it would be impossible for a State to satisfy the conditions by passing a law and providing that it should go into effect 3 or 4 years from that time.

Section (b) requires the law to state a waiting period but does not say what that waiting period shall be, and provides that the State law shall not require a prior period of employment in excess of 10

weeks on the part of anyone employer. That is, a State might pass a law which had no prior period of employment as a requirement, but it could not have a law which required a person to work more than 10 weeks for the preceding employer as a condition of eligibility.

Then there is a provision about which I should like to speak briefly myself: That the benefit rates shall be at least equal to \$7 a week or average earnings of 20 hours a week.

Now, I am somewhat afraid of that provision of \$7 a week. It is true that it is a minimum standard and that the State law might well exceed that amount, but I am afraid it would be a mental hazard which legislatures would find it difficult to overcome, and that they would see this \$7 a week, and they might put it in as a maximum or as a predominate method of payment.

So that I would suggest that line be redrafted and that any specific minimum might be omitted. In its place there might be inserted some such provision that the benefit must be at least 40 percent of the average full-time weekly earnings. And there might perhaps be a maximum weekly benefit laid down not to exceed \$20 or \$25 a week, but I am somewhat afraid of that \$7-a-week clause; that that would be interpreted by the States as a basis for uniform action.

Mr. LEWIS. The subject is a difficult one, I can see.

Mr. DOUGLAS. Yes, sir. Section (c) provides that the benefit periods shall cover at least 10 or more weeks.

Mr. LEWIS. What is the benefit period in Great Britain and Germany?

Mr. DOUGLAS. Twenty-six weeks in England on insurance, and then after the twenty-sixth week the worker is examined by a Public Assistance Committee to decide whether or not he or she is in need, and if they are not in need, the benefits are discontinued, even though the person is unemployed. If they are adjudged in need, they are given that amount which the committee regards as necessary for a further period of time. Those benefits are paid through the employment exchanges but are contributed by the national government.

In Germany the original period was 20 weeks, and after that a period of emergency benefit, which was borne three fourths by the national government and one fourth by the localities. But that has now been changed, I am informed, so that the original period of insurance is 20 weeks and in seasonal trades 16, and after that the person is paid on basis of need, but the funds for this are provided not by the National and State Governments, as before, but by the insurance fund itself, which has in the last 2 years accumulated a surplus because of the increased assessments which have been made upon employer and employee. Formerly the fund did not have a surplus and the Government bore the relief cost. Now, since the contributions have been raised to a total of 6½ percent, 3½ percent from each party, the insurance fund today has a surplus and is bearing the additional payments.

If I may interject a thought, I think 10 weeks is a rather short period of time. Unless it causes too much trouble in connection with the Wisconsin law, which is limited to 10 weeks, I would like to see the period extended to at least 12.

Mr. FEAR. What would be the effect on industry, speaking in general terms, as compared with European practices, where the Government pays one third and the employer pays one third and the employees pay one third? Here we are taking it all from the employer.

Mr. DOUGLAS. May I say something on that?

Mr. FREAR. Yes, sir.

Mr. DOUGLAS. In Germany, of course, the cost of insurance is borne by the employer and worker in equal contributions.

Mr. FREAR. Fifty percent each?

Mr. DOUGLAS. Yes, sir.

Mr. FREAR. Here in this case we are making it fall entirely on the employer. What would be the effect on industry in general?

Mr. DOUGLAS. This act does not require the employer to pay the entire cost. The various States could require the employees to pay some.

Mr. FREAR. Yes; but the employer has got to pay his 5 percent.

Mr. DOUGLAS. Pay his 5 percent; yes, sir.

Mr. FREAR. And the Federal Government is going to credit the State with these contributions.

Mr. DOUGLAS. Or the individual employer.

Mr. FREAR. I am wondering, as long as we are starting out on a different proposition from what they have abroad, how that would affect industry, because industry, of course, as we know, now is being hampered in many ways. Of course I can readily see that they would object generally to the whole proposition, but we are all in favor of giving employment, and if that can be done without any great hardship on industry it would be very desirable.

I am wondering what the effect would be or if any study has been made of it.

Mr. DOUGLAS. No, sir; and, of course, that question really stands on the issue as to who bears the cost of insurance.

Even though levied originally upon the employer, it does not at all follow that the employer would ultimately bear the burden. In the first place, it would fall on virtually all employers, not merely upon a few, and, therefore, a considerable portion of it would certainly be passed on in the form of increased prices to the consumer.

Mr. LEWIS. Elevate prices that much?

Mr. DOUGLAS. It would force an expansion of bank credit.

Mr. FREAR. There is only a slight increase because it is based upon the pay rolls, and not based upon the general expenditures of the corporation.

Mr. DOUGLAS. That is right.

Mr. FREAR. But there is a different system or different principle involved here, that is, it is entirely charged against the industry.

Mr. DOUGLAS. I think a portion of it might be shifted back to the workers in the form of a diminished wage, or, rather, the workers might not receive increases which they might otherwise receive.

Mr. FREAR. You mean that may be by agreement between the parties? It could not be done where the wage is fixed.

Mr. DOUGLAS. If the addition of this payment meant that the employers were paying out, both in wages and insurance, more on behalf of a worker than he contributed in productivity, the tendency might be to squeeze some workers out of employment, and then those workers being out of employment would offer to work for a lower wage than that originally prevailing.

So that part of it may be brought back to the workers.

Mr. FREAR. That would be rather difficult to do under the operation of the labor unions.

Mr. DOUGLAS. Only 10 or 15 percent of the industries are unionized, and there is some degree of flexibility even there.

Mr. LEWIS. In these competing products, say artificial silk and the higher forms of cotton manufacture, we might have an instance of it falling back on the employer.

Mr. DOUGLAS. Yes, sir.

Mr. LEWIS. Because there the price might not be subject to a corresponding increase.

Mr. DOUGLAS. Yes, sir. In competing products, with differing percentages paid out in pay roll, there would be that unequal feature, from the point of view of selling price, that is quite true. And the industry with the smaller percentage of pay roll would gain in comparison, and the industry with the larger percentage of pay roll would lose in comparison.

Mr. FREAR. Is it generally known what the impression or understanding is of men connected with large industries like those in Detroit and elsewhere, who have their own independent system, I suppose, quite largely? How do they regard this?

Mr. DOUGLAS. In 1929 the Industrial Relations Counselors, which is an organization largely financed by Mr. John D. Rockefeller, Jr., and which served large business interests, made a survey of the principal plans of unemployment insurance which had been put into effect and they found that as of 1928 there were only some 12 voluntary employee plans, which included in all 10,900 workers, and that even if you were to include those which put in unemployment insurance since that date, notably the General Electric, the experiments at Fond du Lac, Wis., in your State, Mr. Frear, and so forth, that the total would not be more than 100,000.

In other words, if I may put this as an illustration, after 15 years of experimentation, the private voluntary plans included about 100,000 workers, while there would nominally be between 20 million and 30 million workers eligible for unemployment insurance. So that in 15 years they covered only from one half to one third of 1 percent and you see at that rate it would take something like 2,000 years to cover all of the workers. It is possible that they might speed up in the future, but they have burned their fingers so badly with private old-age pension plans, that I do not expect to see much experimentation.

Mr. FREAR. I do not know whether this has any bearing on the bill, but there is a possibility that some of those people who are unemployed will never be employed, that is, those out of industry, for reasons given by Miss Perkins today.

Mr. DOUGLAS. Yes, sir.

Mr. FREAR. What can be done for those?

Mr. DOUGLAS. Those will have to be taken care of by the Government.

Mr. FREAR. By the Government, the State or Federal Governments?

Mr. DOUGLAS. I think one of the troubles with the English system from the period 1921 on to 1931 really was that they tried to use the system of insurance to cover everything, and I think it is much better to block a particular field and have insurance cover that, and then have relief take people after they have exhausted their insurance benefits and are still in need, also take people who have never been

under insurance at all, and not have an insurance system try to do everything.

(e) Section 3, on page 9, is interesting and important. The act provides that no State act shall deny compensation to a worker if the job which is offered to him and which he refuses is a vacancy due to a strike or a lock-out. Section 2 I shall pass over because I understand President Green of the American Federation of Labor is going to make a statement upon that.

Section 3 provides—

Mr. LEWIS. What page?

Mr. DOUGLAS. Page 9. You see your State act normally requires a worker to accept the jobs which are offered to him in his trade, and if he refuses to accept such a job, he is denied benefit.

Now, suppose the job which is offered him is a strikebreaker job. This clause says that you shall not use unemployment insurance to make a man a strike breaker. He can refuse to be a strike breaker and still get benefit. Although the section in that respect does not provide for it, a State law might say that if a man leaves work because of a strike, he will be ineligible. In other words, a State law will generally try to be neutral in these industrial disputes, neither giving benefits to people out on strike, nor withholding benefits from those who refuse to act as strike breakers.

Similarly the third clause, which virtually says that if a worker is compelled, as a condition of employment, to join a company union, or give up membership in his own union, that he can refuse such a job and claim benefit. In other words, it tries to tie in section 7 (a) of the Recovery Act with this.

(f) Is, I think, obvious.

(g) Merely takes cognizance of the fact that certain firms may be given the right, under State law, to guarantee employment. That is, Procter & Gamble, in Cincinnati, guarantee employment instead of giving an unemployment insurance benefit. Presumably, if they do not afford the full number of weeks of employment, they pay full wages. This provides that that should be taken into account.

Mr. FREAR. Credit?

Mr. DOUGLAS. Credit; yes, sir.

(h) Provides that the State laws shall not permit private insurance companies to carry the unemployment insurance. I do not think many private insurance companies will care to do so because it is difficult to find out what the risks would be. It would be a bad social policy, I believe, to have a lot of competing insurance companies, because of the risk. If you had private insurance, you probably would also find some insurance companies—and I won't say all insurance companies—fighting claims, and there would be always present the difficulty that you would have the insurance fund separated from the administrative agencies.

Mr. FREAR. Is there any practice of that kind at present? Do they have private insurance companies doing this work?

Mr. DOUGLAS. No, sir.

Mr. LEWIS. Wisconsin, for example?

Mr. DOUGLAS. Wisconsin does not have any private insurance companies carrying unemployment insurance.

Mr. FREAR. I never heard of any.

Mr. DOUGLAS. This much should be said: In 1931 the New York State Legislature passed an act which permitted private insurance companies to write unemployment insurance, and that act was vetoed by Governor Roosevelt. Therefore, so far as I know, it is not granted by State law, unless some State laws have general provisions which might permit them to do so.

Mr. FEAR. Are there any in existence?

Mr. DOUGLAS. None that I know of.

(i) Provides that the unemployment fund shall be under State control, and that where an employer keeps his own fund in the form of an accounting reserve, he shall maintain with the State collateral which will insure the solvency of the fund. That clause is to guarantee against the dangers of self-insurance, with an adequate employment reserve.

(j) Not only provides for that, but also provides that every act shall give to both employer and employee the right to be heard on any disputed claim, by an impartial agency. In other words, it provides that the determination as to what is unemployment shall be in the hands of an impartial agency, and that is an important issue, when the question comes up, as to whether a man left a job with due cause or not, or whether he has refused suitable employment. It is very important that such questions shall be in impartial hands.

Mr. LEWIS. Does the Wisconsin Act leave those decisions to the Workmen's Accident Commission?

Mr. DOUGLAS. To the Industrial Commission; yes, sir.

Mr. LEWIS. It would be natural to refer them to that Commission.

Mr. DOUGLAS. Yes, sir.

Section 4 merely lays down the conditions under which the excise tax shall be paid. I am informed that section 4 was drafted with the cooperation of the Bureau of Internal Revenue, and that the provisions are satisfactory to it. The money can be paid annually or quarterly or extensions of time may be given if the firm is unable to meet the payment, and this permission is given by the Commissioner, with the approval of the Secretary of the Treasury, but not to exceed 6 months.

That completes my analysis of the bill.

Mr. LEWIS. In section 5 it states:

If any provision of this act, or the application thereof to any person or circumstance, is held invalid, the remainder of the act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

Would you encounter the difficulty of a veto by the courts——

Mr. DOUGLAS. I am not a lawyer and perhaps I ventured unduly upon constitutional questions when I originally expressed my opinion, so that I will pass that over to people who wish to testify on that point.

Mr. LEWIS. Are there any further questions of Professor Douglas? (No response.)

That is all. We thank you, Professor, very much.

We will adjourn at this time until 10 o'clock tomorrow morning.

(The committee thereupon adjourned until 10 o'clock tomorrow morning, Thursday, Mar. 22, 1934.)

UNEMPLOYMENT INSURANCE

THURSDAY, MARCH 22, 1934.

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. David J. Lewis (chairman) presiding.

Mr. LEWIS. The subcommittee is ready to proceed with a continuation of the hearing on H.R. 7659. Mr. M. B. Folsom, representing the Eastman Kodak Co., is the first witness this morning.

Mr. Folsom, will you state whom you represent, and also give us a short résumé of your experience and background in connection with this matter.

STATEMENT OF M. B. FOLSOM, ASSISTANT TREASURER, EASTMAN KODAK CO., ROCHESTER, N.Y.

Mr. FOLSOM. Mr. Chairman and gentlemen of the committee, I am very glad to have the opportunity to appear before your committee, at the request of the chairman, Mr. Lewis, to describe the experience of the Rochester Unemployment Benefit Plan, and also to give you my views, which are also the views of the Eastman Kodak Co., on the Wagner-Lewis bill, S. 2616 and H.R. 7659, relating to unemployment reserves. I have studied this subject of unemployment reserves and insurance since 1922. I assisted in the establishment of the Rochester unemployment benefit plan in 1931 and served on the committee which drafted the unemployment benefit plan recommended by the United States Chamber of Commerce for employers generally. I also served as an adviser to the New York State Legislative Commission on Unemployment Insurance in 1932. My business experience has been entirely with the Eastman Kodak Co. I have been in close touch with the statistical and planning work necessary for the stabilization methods used by the company and since 1931 have had opportunity to see how an unemployment benefit plan works out in practice.

Mr. COOPER. Is the benefit plan you refer to for the city of Rochester?

Mr. FOLSOM. I will describe that plan.

In February 1931, 14 companies in Rochester, feeling that some action should be taken to meet the unemployment problem in the future, adopted the Rochester Unemployment Benefit Plan. That plan provided for the creation of substantial reserves for a period of years from which unemployment benefits could be paid to workers who might be laid off because of lack of work. Under this plan each company accumulates its own fund.

Mr. LEWIS. Are you now talking about the entire city of Rochester?

Mr. FOLSON. No; I am talking about 14 companies in the city of Rochester. Each company decided to start its own fund by setting aside an annual appropriation for a number of years from which they could make payments to people laid off on account of lack of work.

Mr. LEWIS. Have you any idea as to how many employees were affected?

Mr. FOLSON. I will give you that. The amount of the annual appropriation depended upon the experience of the individual company, with a maximum of 2 percent of the payroll, the employer paying the entire cost.

This plan provided that the benefits would become payable after January 1, 1933, giving 2 years in which to build up a fund. At the time when the plan was adopted, in the early part of 1931, there was little expectation that the depression would grow any worse. As a result of the drastic decline in business during 1931 and 1932, some of the smaller companies found they were not able to set aside the funds as they originally contemplated, because they did not have them. So they were obliged to suspend the operation of the plan until business improved.

But the seven larger companies, including the Eastman Kodak Co., went ahead and accumulated the fund as originally intended, and they have paid benefits according to the plan, beginning January 1, 1933.

The companies that went ahead with the plan represent approximately 12,100 workers, or 77.5 percent of the total number of employees covered by all of the companies originally in the plan.

During the year 1933, actual benefits amounting to approximately \$42,000 were paid to 337 workers laid off because of lack of work, and benefits amounting to \$8,000 were paid to 196 part-time workers who were working less than 50 percent of normal time.

Practically all benefits were paid to workers laid off during the first 3 months of 1933, before employment began to increase.

With the reduction in the normal number of working hours to 40 a week, due to N.R.A., part-time benefits are now only payable if employees are working less than 20 hours, or 50 percent of the normal time. The plan calls for part-time benefits for those working less than half time, and no benefits are paid those who are working 20 hours a week, or more.

Payments to date by most of these companies have represented only a small part of the fund that has been accumulated. These companies will now continue to accumulate the fund until a maximum of five annual appropriations is reached. If business continues to improve during the next 2 years, these companies will thus have a substantial fund available for the payment of unemployment benefits in the future.

The rate of contributions provided in the plan was fixed only after several companies had made very careful studies of their employment records over a long period of years in order to determine what the plan would have cost them in the past and what the cost would be in the future.

The employment records of the Eastman Kodak Co. were such that we could go back to 1900 to determine what the plan would have cost if we had had it in operation from then up until this time.

We found that the plan, up to 1930—and the plan provides for benefits greater than the benefit in most of the plans considered by State legislatures, and quite a little in excess of benefits provided in the Wisconsin bill—this plan would have cost considerably less than 1 percent of the pay roll if the cost had been spread over the entire period, and including the present depression up to the end of 1933, the cost would have been less than 1 percent of the pay roll.

That low cost is due to the stabilization work which has been carried on by our company during a period of 35 years.

Mr. LEWIS. What proportion of your costs were wages? I was thinking it might be due to a high machine factor in your operation.

Mr. FOLSOM. It is based on a percentage of the pay roll.

Mr. LEWIS. The pay roll might be small in proportion to the whole-sale value of the product.

Mr. FOLSOM. I think our labor percentage is well above that of industry in general. The low cost is also due to the policy which we have always adopted of spreading the work.

Very early in the depression we adopted the policy of spreading work, before it was generally adopted. If we keep people busy 50 or 60 percent of the time, then we pay them no benefits.

I will give you an illustration of what we are up against in our own plant. Our principal products, as you know, are photographic goods, and there is a high seasonal peak of sale in the summertime. This curve on the chart [indicating chart] shows the sales of one of our principal products.

Mr. LEWIS. The lower curve?

Mr. FOLSOM. Yes. The sales of that product in July are about five times the amount of sales in November or December.

Mr. LEWIS. That chart covers a year?

Mr. FOLSOM. Yes. If we produced at that rate then we would have a lot of people employed during the summer peak and would have to throw them out of work in the latter part of the year.

We start building up our stock in September and build it up gradually until we reach the peak in March.

We build up the stock during the winter and spring. From then on the sales are in excess of the production, and the stock goes down.

As a result of this plan, the employment in the factory shows very little fluctuation in any year.

Mr. LEWIS. When did you introduce your plan?

Mr. FOLSOM. We started on this before 1900.

Mr. REED. I just wanted to say, Mr. Chairman, for the benefit of the committee, if you are not familiar with the situation in reference to Rochester, that city is about the most progressive, forward-looking community that there is in the United States of America.

Many of the worth-while things in civic affairs have been initiated in the city of Rochester. I know of no city in this country where delegations from other cities may go and learn more than they can by going to the city of Rochester.

Mr. COOPER. Let me ask you one question in reference to the chart. What represents that break in the straight line?

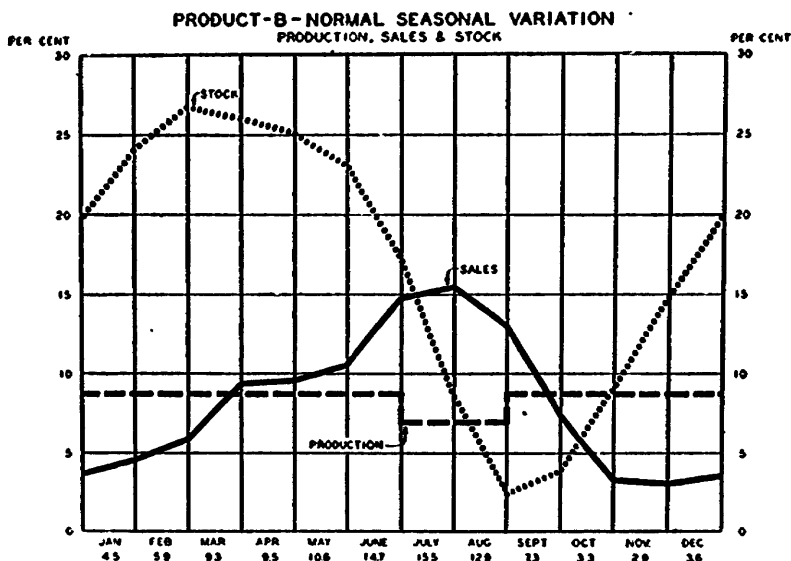
Mr. FOLSOM. That is the provision we make for vacations.

We make our estimates at the first of the year as to what we are going to sell. The estimates are based on careful study by the statistical and planning departments.

We allow for lower production during July and August because of vacations. But if we reach this point and find that our sales have been higher than we expected, and therefore our stock is not adequate, then we can step up production during those 2 months.

Mr. LEWIS. I think that chart you have presented should go in the record at this point.

(The chart referred to is as follows:)



Mr. FOLSOM. We have carried on stabilization work in our company over a period of 35 years, and have spread the work when it became necessary to curtail production. Moreover, because of the study we have given the stabilization problem, the cost of such an unemployment benefit plan as ours would be less than in a company where no stabilization work has been done.

Our record in the stabilization of employment would indicate that the benefits which could be expected from an unemployment reserve plan would furnish an incentive to an employer to stabilize.

If an employer knows that he has to pay the benefits, he will do every thing he can to keep his employees occupied.

The experience of these seven companies in Rochester that I have referred to, both before and after the adoption of the plan, would indicate that it is a practical plan, and that with a maximum contribution of 2 percent a sufficient fund can be accumulated to make the payment of benefits as fixed in the plan. Our benefits are a maximum of \$18.75 per week, spread over a maximum period of 13 weeks.

Mr. LEWIS. What would the minimum be?

Mr. FOLSOM. Fifty percent of the normal pay.

Mr. LEWIS. That would be the equivalent of 3 days' work. If you work but 2 days you make up a day.

Mr. FOLSOM. It is not the expectation of these companies that this plan will provide for unemployment throughout a deep depression, such as the one we have recently experienced. It will, however, provide benefits for a definite period for those who may be laid off because of slack work, and it will also serve as an incentive to the companies to stabilize employment and to reduce unemployment.

The experience of these companies already indicates that with such a plan in operation greater effort is made by the entire organization in each company to plan better, to spread work, and to adopt other means to prevent lay-offs in order to avoid having to pay unemployment benefits for which nothing is received in return.

Mr. REED. I assume, with the plan you refer to in operation, you have a very small turnover in labor.

Mr. FOLSOM. Yes. Of course, we try to do everything we can to keep a steady force.

Mr. REED. You have a small percentage of turnover of labor?

Mr. FOLSOM. It is less than 20 percent. In addition to the unemployment benefit plan in our own company, we have a number of other employee-benefit plans. We have, for instance, an old-age pension plan, a disability benefit plan, a group life insurance plan, a sickness benefit plan, and a profit-sharing plan.

Mr. LEWIS. Does your disability benefit plan take care of the employee after the ordinary accident compensation benefit ceases?

Mr. FOLSOM. It covers total and permanent disability.

Mr. LEWIS. It will go on for life, other things being equal.

Mr. FOLSOM. Yes, or as long as the disability continues. All of those plans that we have are paid for in our case by the company entirely. Of course, all these plans would naturally tend to hold the employee to the company.

Mr. REED. That is the point I was thinking about.

Mr. FOLSOM. One of the purposes of adopting such plans was to keep the employee satisfied so that he would want to stay with us, because we realize fully the high cost of turnover of employees.

Mr. REED. As a matter of fact, it is a real worthwhile investment on the part of the company, and they really save money if they can avoid a turnover.

Mr. FOLSOM. Yes; and it improves the morale of the organization, and with better satisfied and steady workers you can get a better output per worker than otherwise.

Mr. REED. In the usual course of events in an industry the cost of teaching a man his job is very high, and I suppose that is figured in this plan.

Mr. FOLSOM. My contention is that with a plan of this sort—I cannot convince all employers to that effect—but my contention is, based on our own experience, that with a plan like this in operation the benefits which an employer actually receives through the operation of such a plan will in the long run offset the cost.

It will aid in reducing the turnover and with steady workers the cost of manufacturing will be reduced, so that in the long run the amount actually paid out in benefits will not be any greater than the benefits which the employee actually receives.

Mr. REED. You have really had the wonderful leadership of Mr. Eastman, and you have also had the cooperation of the city at large in providing recreational facilities and making it a musical center,

with a wonderfully attractive park system, which has a tendency to keep the people satisfied in the city of Rochester.

Mr. FOLSOM. I think there is no question about all those factors being a help.

Mr. COCHRAN. Does the employer pay the cost of all the benefit plans you mentioned a moment ago?

Mr. FOLSOM. In our case the company does pay it, but as a general rule I think the ideal plan would be for the employees to contribute toward the cost of a number of these plans. However, I do not feel that the employee should contribute toward the cost of the unemployment-benefit plan.

I think the ideal plan is for the employer to stand the cost for the first 15 or 16 weeks.

But if the employees want to contribute to it also, let them build up such a fund, setting aside so much a week or a month in a separate savings fund which they can draw on for their benefits when the employers' benefits cease.

If they never become unemployed, they can use their fund to help out on old-age pensions, or to go to their estates in the case of death.

But I think the two funds should be kept entirely separate.

Mr. LEWIS. In your unemployment fund, do you have a waiting period?

Mr. FOLSOM. Yes.

Mr. LEWIS. How long?

Mr. FOLSOM. It is 2 weeks, but I think it ought to be 4 weeks. I think a longer waiting period is better, so you will not use up the fund for short periods of unemployment.

I think that the greater part of the fund should be saved for deep depressions, the employee can get along for 3 or 4 weeks.

The experience of the smaller companies, who found that they were financially unable to go ahead with the plan although convinced of its desirability, demonstrates the inadvisability of any compulsory plan which provides for the payment of contributions until business has shown definite and sustained improvement.

The companies adopting this plan felt that the ideal program for the general inauguration of unemployment reserve plans would be the voluntary adoption of such plans by individual employers. Such voluntary action would follow several lines and would provide experience with various types of plans.

The Rochester plan at that time stimulated a great deal of interest, and shortly thereafter the United States Chamber of Commerce recommended a plan for employers in general quite similar to the Rochester plan.

It soon became evident, as the depression deepened, that employers, although they were very much interested, were in no position to start the accumulation of reserves for future depressions; they were too much concerned with the problems of the present depression.

This concern over the present situation also explains the attitude of employers in general that legislation on unemployment reserves should be delayed until business is closer to normal. Most of them feel that they have so many problems to consider in the present depression that they cannot be very much interested in providing reserves for future depressions. I think that is the reason why most employers are opposed to any legislation.

In the last 2 or 3 years I have contacted a large number of employers on this subject, because our plan has created so much interest that we have been asked to explain it to quite a large number of groups. I have gone out to a number of cities for the purpose of explaining our plan.

During 1931 there was a great deal of interest in it. But when the depression got deeper and deeper, employers could not consider this problem because they had so many other problems more serious to consider.

Mr. COCHRAN. What is your opinion in regard to it?

Mr. FOLSOM. Speaking for the Eastman Kodak Co. and for myself, we are fully convinced of the desirability of the adoption of unemployment reserve plans, and we realize that legislation will be necessary before such plans are generally adopted. No compulsory plan should become effective, however, as to contributions, until we are well out of the present depression.

Legislation, if enacted, should be of the type which makes it compulsory for individual companies to set up reserves, with a separate account for each company's reserve and with a provision to exempt employers with plans as good as the State plan.

We are opposed to legislation which sets up one State pool. By that I mean a plan by which all employers in the State have to set aside a certain percentage and put it into one common pool, and the companies who make no effort to stabilize, would pay the same rate as the company which does adopt a good plan of stabilization.

Mr. LEWIS. Under the terms of the bill that particular problem would be decided by the legislature of each State.

Mr. FOLSOM. We feel that under the State pool plan, there is little encouragement for the employer to stabilize and thus the prime purpose of the plan, which should be to prevent unemployment, is defeated. If a plan of that type is adopted, all company plans, such as the Rochester unemployment benefit plan, would have to be discontinued.

Mr. LEWIS. On the question of stabilization, your record is so long that you perhaps do not have the experience with which to answer it.

Yesterday I used an extreme illustration of stabilization. Say some concern was doing its work in 6 months and employed 500 men. It stabilizes and employs 250 men only, the same men, for a year. It does not seem to me that in the light of the problem of chronic unemployment, even at the best, stabilization of that character is all a blessing. I would like to have your view about that.

Mr. FOLSOM. There is no question about it that with the adoption of a plan of this sort, if you have unemployment reserve legislation generally adopted, in the future employers will do a better job in stabilization. There will be less fluctuation in employment. That means that they will not hire as many people and will not fire as many people. There will probably be a larger burden of permanently unemployables than before the depression. The problem is to reduce the number as low as possible.

In our opinion it would be very desirable to have legislation adopted simultaneously in the several industrial States, so that employers in one State would not be placed at a disadvantage with competitors in other States. I have found that one great objection among employers up to now is that they do not want to be placed at a disadvantage with employers in other States.

We would, therefore, approve the general objective of the Wagner-Lewis bill, to furnish an incentive to States to enact legislation, but we have several definite suggestions to make for changes in the bill. I will take up the changes that we suggest.

In the first place, the 5-percent tax rate is too high. The only State law so far passed, that is, in Wisconsin, requires a 2-percent contribution. The principal bills now being considered, in New York, Massachusetts, and other States, provide for either 2 percent or 3-percent contributions by the employer.

Most of these plans provide for a separate account to be kept of each company's reserves and set a definite maximum reserve per employee, generally \$100. Under this type of plan a 2-percent contribution would build up the same reserve as a 3-percent contribution, and yet it would not be so much of a burden upon the employers during the initial stages, when they can not stand it.

The experience of the Rochester companies would indicate that a 2-percent contribution would be sufficient to build up a fund to take care of the benefits provided in most of the bills which are now being considered in most of the States. The Rochester plan calls for larger maximum benefits than most of the bills being considered by the State legislatures.

We feel that the legislation should be used only as an incentive to States to pass unemployment reserve legislation and not to be used as a revenue-producing measure. Senator Wagner has stated that the purpose of the Wagner-Lewis bill is to serve as an incentive to State legislatures to pass unemployment reserve legislation.

MR. LEWIS. My view is, however, that we would have a somewhat different problem in each industry, depending on its vicissitudes of production and marketing.

MR. FOLSOM. As long as you set a maximum reserve which must be accumulated for each employee to take care of the benefits, you take care of that.

MR. LEWIS. That would mean that the Federal Government, in its effort to act in the matter, would have to develop a different tax for the different industries.

MR. FOLSOM. No. Let us take, for instance, the Wisconsin law that provides for a 2 percent contribution, and several of the bills pending in New York State provide for 2 percent; none of them go over 3 percent.

Senator Wagner has stated that the purpose of the bill now before you is to serve as an incentive to State legislatures to pass legislation along this line.

Most of the bills, of which there are several in State legislatures, call for only a 2 or 3 percent contribution. Five percent is not necessary unless you expect to have the bill provide benefits much greater than the benefits provided for in bills now before State legislatures. I do not think that is necessary.

MR. LEWIS. You, I am sure, do not form opinions without information. Have you any statistical studies on this subject that would help the committee, concerning this rate? You gave us your experience from 1900 on. That is in one industry.

MR. FOLSOM. You take the Wisconsin bill, which provides only for \$10 a week benefit for 10 weeks, and a maximum reserve of \$75, which is sufficient, because you would not expect to have to lay off

your whole force. The maximum liability under the Wisconsin act is \$100, and they say you must set up a reserve of \$75.

The Steingut-Mastick bill, which is similar to the bill that Senator Wagner introduced in the Senate for the District of Columbia, provides for \$15 a week maximum for 16 weeks; that is a \$240 maximum. Of course, that is the maximum; probably the average would be around \$150 if you lay off everybody in your force. They say you should set up a reserve of \$100 for every employee. If you do that, it does not matter whether you contribute 2 or 3 percent for 2 or 3 years. When you reach the \$100 maximum the contribution stops.

If you are going to have that type of bill which sets up a maximum reserve, 2 percent will accumulate a reserve as well as 3 or 4 percent.

If you take a 5 percent Federal tax on top of that, which means that the employers in those States would pay 2 percent to the State fund, and 3 percent to the Federal Government in taxes, there would not be any inducement to reduce unemployment.

Mr. LEWIS. What figure would you suggest, about three?

Mr. FOLSOM. Two percent; the Wisconsin act provides for 2 percent, and there are bills pending in New York that provide for 2 percent. There are bills in other States that provide for 2 percent.

If you intend to give any latitude to the State, it seems to me you ought to give the State latitude in that regard as well as in other regards.

Mr. COOPER. What did you say; that this should be left to the States?

Mr. FOLSOM. Yes. It has been stated by Senator Wagner that it is the purpose of this legislation to give wide latitude to the States as to the type of legislation which they will enact.

I think it is important to give them latitude as to the rate above a stated minimum. I think the 2-percent rate will provide the benefits which are set up in most of the bills.

Mr. LEWIS. There should be a uniform rate so that the burden on competing industries in different States would be equal.

Mr. FOLSOM. Yes. If you have the 2-percent rate and the company does a good job so that they will not have to pay benefits, the cost to the company will be less in the long run.

The second point I want to make is that there should also be a provision that, if the employer has set up the maximum reserve specified in the State law and is thereby relieved from any further contributions, he should not be liable for the payment of the Federal tax.

Then if you have a State law which provides that every employer must set up a reserve of \$100, as long as he keeps that he does not have to pay any more to the State.

According to the way the bill is drawn now, he immediately would have to start paying the Federal tax. That is the way I interpret this bill, but the solicitor, Mr. Elliott, advises me that this is not the case. However, I think it ought to be clarified.

Many proposed State bills, such as the New York Steingut-Mastick bill, which is practically the same as the bill introduced by Senator Wagner in the United States Senate last year for the District of Columbia, provide that an individual employer may be exempt if he has a plan providing benefits equal to the State plan, and if the State agency is satisfied as to the financial security of the plan.

Some of these employers, because of their record in stabilizing employment, may not actually put aside as much as the State requires for other employers.

If we had legislation in New York State which would require that all employers should set up unemployment reserve plans similar to the Rochester plan, any one of the Rochester companies could be exempt from the operation of a State plan if the State department of labor is satisfied as to the financial security of the plan, or is satisfied that we have the money to take care of it.

According to the way in which the bill is now drawn, such an exempt employer would be required to pay the full excise tax to the Federal Government in addition to the reserve which he sets aside under his own plan. In other words, the Rochester companies would be penalized for having adopted a plan voluntarily.

It is therefore strongly recommended that any employer who is exempt under a State plan because he has a plan with benefits equal to the State plan, or better than the State plan, should receive the same credit on the Federal tax as other employers in the State who are not exempt. There is very little likelihood of evading the spirit of the law because the State agency, before exempting an employer, will be assured that the plan provides benefits equal to the State plan, and also that the employer is financially able to pay the benefits.

One reason why I would like to have you consider that point is that my whole theory is that you should tie this up to the individual employer, and not get the State into it. It is better to have the individual employers have their own plans for their employees and to have the employees go to the individual employer for their benefits instead of to the State. If the benefits are paid by the State, the people will look to the State for a continuation of the benefits, and you are bound to have them looking to the State to carry it all the way through.

I think you have to have relief plans, but they should be kept separate from the unemployment reserve plans.

Mr. COCHRAN. What are your reasons for that position?

Mr. FOLSOM. If you are going to put the burden on the employer, you will get better results if the employer feels responsible for those of his regular employees benefited by the plan.

My feeling is that the employer should assume the responsibility for what we consider as regular employees, that is, employees of over 6 months' or a year's service, and when it comes to shift those who are around those not employed, except in very prosperous times, that must be a burden on society as a whole, and should not be placed on the employer.

Mr. LEWIS. That is one of the judicial decisions involved.

Mr. FOLSOM. Most of these plans—

Mr. LEWIS (interposing). In your plan, for example, of necessity the company makes all these decisions, and yet we are undertaking here to confer a form of right upon the "disemployed" workmen. I have coined that word, and I think it is applicable.

Mr. FOLSOM. This plan, I might suggest, is not new. It is a plan which is actually provided for in the bill that Senator Wagner introduced for the District of Columbia, and which many people are supporting in New York State.

Mr. Lewis. My point about that decision is that a public right is involved, and the company is one party. It has an obligation to pay, if there be an obligation. We cannot think of a right of that kind with the determination of the right in the other party to the case. How would you meet that difficulty?

Mr. Folsom. These State plans provide very clearly that in case an employee thinks he is entitled to a benefit and does not get it, there are appeal boards set up in every district, so he can put his claim up to that board, and if he has a good case it will be decided in his favor.

The State will take care of that very well; there is no objection to that from the point of view of employees or labor organizations in general. That is well provided for in individual plants. In our case we have a committee which passes on disputed points. The employee of an exempt employer in that case would be just as free to go before this appeal board as any other employee, and it ought to be that way.

Some of these State bills also provide that all employers in an industry may be exempt if the industry has an unemployment benefit plan, financially secure and providing benefits equal to the State plan. It is quite likely that under the N.R.A. certain industries may set up a plan of unemployment reserves so that all in the industry would have the same plan and would not be subject to different rates of contribution which might be provided by the legislatures in several States. For example, the New York State Legislature might have a bill giving 3 percent, and the Massachusetts State Legislature might pass a bill providing 2 percent, and the Pennsylvania State Legislature might pass a bill providing 1 percent. I think the State legislation would probably exempt from application of the State plan the employers who contribute toward such a plan for an industry.

It is therefore suggested that an additional paragraph be added to section 2 stating that an individual employer exempt from a State plan or employer in a group or industry which is exempt, will receive credit at the same rate as the contribution required under the State plan for employers in general.

There is subdivision (b) of section 2 which provides an additional credit to employers who make progress in the future toward stabilization or employment. It is equally important that a credit should be allowed the employer who has already stabilized employment and who, because of his stabilization work or because of the nature of his business, has very little fluctuation in employment. If the above change is made giving the exempt employer the same credit as the nonexempt employer, the companies who have stabilized will undoubtedly ask to be exempt and would, therefore, automatically receive full credit for the work which they have done toward stabilization.

The fourth point that I wish to make is that the tax should not become effective until the well-established indices of employment and business conditions show that for a period of months business and employment have actually improved. Some of the bills now before State legislatures have a provision that contributions will not commence until the index of employment within the State for a period of 6 consecutive months shows an increase of a certain number of points over the employment of a certain date stated in the bill.

Such a provision would be highly desirable. It is felt that if State legislation is enacted within a reasonable time of this sort the excise tax specified in the Wagner-Lewis bill should not become operative for employers in that State until the State law as regards contributions would become effective. There was a provision in the Steingut-Mastick bill in the New York Legislature, providing that the contribution would not become payable until the index of employment in New York State had increased 20 points from the December 1932 level. In other words, it is not wise to ask for contributions from employers now to take care of unemployment in the future, when they are so overburdened at the present time.

Mr. LEWIS. Would you leave it to the Government?

Mr. FOLSOM. Yes, within stated limits.

Mr. LEWIS. Would you do it by proclamation of the President of the United States?

Mr. FOLSOM. You could do it by stating that the act would not become effective until the index of employment of the Bureau of Labor or the index of production of the Federal Reserve Board for a period of 6 months indicated that there had been a stated improvement in business conditions, rather than setting some definite date such as the bill does now for July 1, 1935. I think to safeguard it and provide for contingencies a provision like that should be included.

Mr. LEWIS. You might put this in your testimony, these bills and their provisions.

Mr. FOLSOM. I have an analysis which I have made myself of the three principal bills in the New York State Legislature.

Mr. LEWIS. Setting forth the provisions on that subject?

Mr. FOLSOM. Yes; the provisions on all of these bills.

Mr. FREAR. Your suggestion is that legislation of this kind should not become effective until some time in the future. Do you think the legislation ought to be passed at this time?

Mr. FOLSOM. I think you will find the employers in general will be much more receptive if the legislation is delayed, because they do not feel that now is the time for it, but, on the other hand, I think the important point is it should not become effective until business conditions improve.

Mr. LEWIS. Would you be unwilling to see the legislation passed and ready to operate when the index factor was favorable?

Mr. FOLSOM. You will find that most of the employers would be opposed to the passage of any legislation at this time. I would be willing to see legislation now if it were along the right lines, and provided contribution did not have to be made right away, but would await an improvement in business conditions.

Mr. FREAR. You believe, then, that the enactment of legislation of this kind at this time would not delay the recovery of business?

Mr. FOLSOM. No; I do not believe that the enactment of legislation at this time would delay the recovery of business, unless you made provision that the contributions should commence immediately. However, I know you will find that the great mass of employers throughout the country will be against it because most employers feel that the main thing now is to get out of this depression, and they are inclined to delay until some time in the future and then begin to take measures to prevent the recurrence of depressions.

Mr. LEWIS. With that thought occurs this further thought that a system of unemployment insurance addressed to a depression like that in 1933 is inadequate, that is, it would prove futile?

Mr. FOLSOM. I do not think it would prove futile, but I do think a bill of this sort would certainly not take care of all of the unemployment in a depression such as we have had during the last few years. Now, my feeling is that if we have legislation adequately adapted, and set up adequate unemployment reserves that they would go a long way toward solving seasonal unemployment, and they would go a long way toward solving minor depressions such as we had in 1914, and such as we had again in 1921, and it would also take care of the first year or so of a deeper depression such as we have at this time. However, these depressions such as we have now come only about once in every 30 or 40 years, and I do not think any plan you can put into operation will take care of a depression like this. My feeling is that employers should be held responsible for the employment of the steady workers during normal times, and during minor depressions, and during the first part of the deeper depressions, but when business is so poor that you have to lay off your steady workers, the people who have been with you a long time, then society will have to step in and help carry that load, and there is no provision that we can make in an employment reserve or through unemployment insurance that will take care of it. I do not believe you can ever inaugurate a sound system of unemployment insurance that will take care of it. I do not believe you can ever inaugurate a sound system of unemployment insurance for the simple reason that nobody can predict how much unemployment we are going to have in the future.

You can calculate the probabilities and what is likely to happen in other risks, such as sickness, death, accidents, and there you have statistics, which have been accumulated over many years, so that you know what your rate is going to be. The death rate this year by and large will be the same as last year, and 2 years from now it will be very nearly the same, and you are on a sound basis and you have statistics on which to make predications. But, nobody can predict how much unemployment we are going to have. For instance, back in 1927 people thought it would be impossible to have as much unemployment as we have now. I do know that no one can say how much unemployment we are going to have 3 years from now. We do not call this plan unemployment insurance, we call it unemployment reserve—setting aside a fund which is to be used in times of depression to pay benefits—when that fund is gone, then the State will have to contribute as they have this time.

Mr. REED. Your views coincide with my own in that respect, and as was said by Secretary Perkins in regard to the actuarial difficulties involved, and as it seems to me, this could not be classed as insurance.

Mr. FOLSOM. No, it cannot.

Mr. REED. Because, as you say, it is utterly impossible to figure it out on the same basis as your death rate which is certain over a long period of years. I am wondering if you have statistics showing how many corporations there are in the United States that employ in excess of 10 people?

Mr. FOLSOM. No, I have not the figures with me, but I think they are obtainable.

Mr. REED. I think a proposal ought to be made to obtain that for the record.

Mr. LEWIS. I will ask Mr. Eliot to get that.

Mr. REED. If that can be obtained we ought to see, too, over a period of years how many of them have realized profit.

Mr. ELIOT. Yes.

Mr. REED. Otherwise, we do not know just where we are going.

Mr. FOLSOM. I think you have got to make clear the difference between unemployment reserves and unemployment insurance. I do not think unemployment insurance is practical.

Mr. LEWIS. The constants are not there upon which to predicate it?

Mr. FOLSOM. Of course, in this country we have not any actual statistics of unemployment.

Mr. REED. There is another question that occurs to me: You have made a very deep study of this matter. I wonder if it has carried you into other countries that have this so-called plan?

Mr. FOLSOM. I was adviser to the New York State Legislative Commission which studied unemployment reserves and insurance last year. We have studied it, and I have studied it on my own, because the Kodak Co. has branches in England and in Germany.

Mr. REED. I would not ask you to go into it now, but I was wondering, with the chairman's consent, if you would mind filing a little memorandum on it.

Mr. FOLSOM. I have an article which appeared in the March issue of The Nation's Business that covers this whole question, which I would be glad to leave copies of.

Mr. REED. If it could be extended into the record that would be helpful.

Mr. FOLSOM. Of course, as you know, none of the plans that have been tried abroad really succeeded.

Mr. REED. That has been my information.

Mr. FOLSOM. In that regard I agree with Mr. Hopkins, who, I notice, appeared before the committee yesterday. He stated that the British dole system, he thought, was better than our system of relief. That system is not unemployment insurance. They had a sound system of unemployment insurance to start off with, but when the fund became exhausted it broke down and went into the relief system.

Mr. REED. France, for instance, was in a different situation. There were some 4 million people killed during the war, and they had to import men from Poland, Italy, and all around to give them the jobs which they had.

Mr. FOLSOM. The other suggestion or change which I would make is that it has been stated by the proponents of this bill that the purpose of this legislation is to give wide latitude to the States as to types of legislation which would qualify under the bill. I have studied the three principal bills now before the New York State Legislature relating to unemployment reserves or insurance, and that study shows that none of these bills will meet the standard and the conditions enumerated in the several subsections of section 3 of the Wagner-Lewis bill. These bills are the ones which are receiving the greatest support. So, it seems to me that some changes should be made in the standard if you are going to give this latitude to the States.

Some of the State bills provide that benefits are not payable until 2 years after the contributions begin. This is a wise provision as it enables a fund to be built up to a reasonable amount before payments begin. If the purpose of this bill is to build up reserves during a period of years to pay benefits in times of need, you cannot get much reserve in a year's time. I think you ought to have at least 2 years' time within which to build up your reserves, and provide that the benefits will not become payable until 2 years after the contribution has commenced. Subsection (a) should therefore be changed to read:

Provide that compensation, rights and payments should commence not more than two years after contributions begin under such law.

Some of the State bills provide that an employee is not eligible to benefits under the plan until he has been with the employer 6 months. There should be a probationary period longer than the 10 calendar weeks provided in the Wagner-Lewis bill as the employer should not be held responsible for benefits to workers of such short service. A short probationary period would undoubtedly increase the employment qualifications and thus make it difficult for workers who did not meet the high qualification standards to find employment. That is going to work against the employees' interests. If you are an employer and you know that the employees you take into your plant after a very short period of service are going to become eligible to benefits you are going to be very careful about the type of worker you take into your establishment, and you are going to set your qualifications very high before you take them in and try them out. Many workers who otherwise might be put on probation for a longer period and meet the requirements for the work will have very little chance of getting a job.

Many of those workers would normally become satisfactory workers, but the employer will not want to take the chance of taking them on, and therefore he is going to raise his employment standards and thereby also increase the number of unemployables. I think you ought to change so that the provision the benefits should not become payable until they have been with the employer 6 months. If New York or Massachusetts wants to pass a bill providing for the payment of benefits to employees of not less than 6 months service either State should have that right and you should not make it an ironclad rule that they must have a plan for paying benefits to anybody that had been with an employer for 10 weeks. It should be left up to the States to decide. A 6-month provision would be better from the workers' standpoint as a whole.

Mr. WEST. Would you add to that any provision with respect to residence within the State?

Mr. FOLSOM. Some of the bills have such a provision. Some provide for 2 years, and others 1 year. Also that they must have had employment so many weeks during the preceding 2 years.

Mr. WEST. You think that 6 months is a reasonable period of time for that provision?

Mr. FOLSOM. Yes.

Mr. WEST. My theory is the employer should be held responsible for State workers.

Mr. FOLSOM. We would not consider a person of less than 6 months' service with us as a regular worker.

Mr. REED. If you make the minimum less than 6 months it would be almost impossible for the industry to regain its lost cost incurred in the training of the man?

Mr. FOLSOM. Yes; and you will find your turn-over is always greatest among the short-service people. If your period of service is less than 6 months you cannot tell whether a person is going to be satisfactory or not, but if you knew you were going to be liable to pay benefits for those people you would increase the requirements as to medical examination, the physical requirements, the requirements as to efficiency, and everything else.

Mr. REED. Even on any employee you must spend a good deal of money to train him for the job?

Mr. FOLSOM. It is my opinion that we are going to have a larger proportion of unemployables than we had in the past.

Mr. REED. You have probably studied this: Have the laws relating to compensation had a tendency to make manufacturers more strict in their selection of men?

Mr. FOLSOM. Yes; that has been one factor among many other factors.

Mr. LEWIS. I have heard it frequently suggested that the companies protect themselves in compensation cases in the insurance of employees, and that the rates are dependent upon the average age of the employees who are insured. It is a group-insurance policy with the rate dependent upon the average age of the employees. Is that true in this case?

Mr. FOLSOM. Of course, the group-insurance premium is based upon the age of the group.

Mr. LEWIS. Can you from memory give us some statement as to the difference in the rate, say, between persons of the average age of 30, and the average age of 50?

Mr. FOLSOM. As a matter of fact, there is very little difference.

Mr. LEWIS. There is very little difference?

Mr. FOLSOM. Yes. In my own company we have group life insurance on the whole group. In normal times we have a number of young people and older people. When we adopted our plan in 1929 our rates were set at a certain figure. In the last 3 years, we have taken on, of course, very few additional people. We have been doing our best to keep our present force employed, but it has been necessary to lay off some of the employees, and those who were laid off were naturally those who had shorter service with the company. As a result the force we have left is of a higher average age than the force which we had 3 years ago, and yet the premium of our life insurance has gone up less than 15 percent. So, it is not a big item at all. No; I do not agree with the statement of a lot of people that because of old-age pensions and group life insurance plans, and so forth, that employers do not take on older workers.

Mr. FREAR. Do you not think that the States should have uniform laws covering unemployment insurance or unemployment reserves?

Mr. FOLSOM. I think it would be better if legislation were adopted like this by all of the States.

Mr. FREAR. As a uniform provision?

Mr. FOLSOM. On the other hand there should be some latitude given, because the situation is different in the different States. They ought to have some latitude on it to meet their different conditions.

There is another provision in the bill providing that private insurance companies shall not enter this field. I do not think there is much likelihood that private insurance will want to get into the unemployment reserve plans and underwrite them. If they do want to do it, I do not see why a State should not permit them to do it. If a State wants to let insurance companies get into this field I think we might gain from that experience. I think, there also, latitude should be given to the States in that respect. There are one or two other minor points which I think should be cleared up, mostly relating to the question of exempting the employer. There is one provision stating that the employers in a State must pay a uniform rate. According to a number of the State bills they will permit exempt employers to have their own plan, but that does not necessarily mean he is going to have to pay as much as the State plan. If the States pass such bills I do not think they should be disqualified under the terms of this Wagner-Lewis bill. I think it is probably within the spirit of the bill to do that, but the way it is drawn now I do not think it is clear.

There is another provision stating the amount of collateral which an exempt employer would have to put up as security. I think that should be left to the State rather than be stated in this bill. So, I have the following amendments to suggest. Do you want me to read them?

Mr. LEWIS. Yes.

Mr. FOLSOM. First, amend section 2, subsection (a) so as to reduce the rate of the Federal tax from 5 to 2 percent. Second, amend section 2 so as to provide that, if an employer has set up the maximum reserve required by his State law, which qualifies under the credit conditions of section 3, and such employer is therefore under the terms of said State law relieved of further contributions thereunder, he is not liable for payment of the Federal tax.

Mr. ELIOT. That is already in.

Mr. FOLSOM. Mr. Eliot says that is already in, but the way the bill is drawn, I cannot see it. It should be clarified in that respect.

Third, amend section 2 so as to provide that any employer, who by the terms of his State law, which qualifies under the credit conditions of section 3, is exempt from the plan provided by said State law on the ground that such employer has provided a plan equal in amount of benefits to the benefits provided by the State law and approved by the State agency as to financial security, will receive credit against the Federal tax at the same rate as the contributions required under the plan established under the State law.

Fourth, amend section 2, subsection (a) so as to provide that, if by the terms of a State law contributions thereunder do not commence until there has been a stated and reasonable improvement in employment or production within the State as measured by statistics collected by the State, the Federal tax shall not become effective for employers in that State until the contributions under the State law become payable and in no event prior to July 1, 1935.

It probably would be better if the Federal tax would not become effective until employment throughout the whole country as measured by the United States Bureau of Labor has reached a certain point.

Fifth. Amend section 3, subsection (a) so as to extend the period mentioned in the proviso thereof from 12 months to 2 years.

Sixth. Amend section 3, subsection (b) by extending the probationary period from 10 weeks to 6 months.

Seventh. Amend section 3, subsection (f) by providing that under the State law an employer may be exempted from the State law who has provided a plan of benefits equally liberal to those provided in the State law and the financial security of which has been approved by the State agency.

Eighth. Amend section 3, subsection (h) by allowing insurance with private insurance company of employer's liability to pay benefits in States where State law so permits.

Ninth. Amend section 3, subsection (i) by providing that collateral securities to be deposited by an employer under a State plan should be in such amounts as required by the State agency without any specified minimum.

I appreciate very much the opportunity to express my views on this, and I should be glad to answer any other questions the committee may care to ask.

Mr. Lewis. Mr. Forson, I referred yesterday to America's untouchables. That is, men beyond the age of 45 who seek new employment and who are considered as having reached that deadline at 45. I think I share your feeling on the subject, which is that any human being has an equal right to work up to the point of his competency. Have you any thought in the human consideration you have given this subject of an addition to this bill that would tend to assure and secure this right of every human being so his share of the work when he is faithful and competent?

Mr. Forson. I think that there has been a wrong impression generally as to the number of people who are 45 years of age or over who are in this situation. You will find in studying that problem, and I have gone into it pretty thoroughly in our own case and the case of other companies that the percentage of people 45 years of age and over who are unemployed is much less than in the lower-age groups. In other words, most of the companies have kept a larger proportion of their people who are over 40 and 45 years of age than they have in the lower-age groups. An analysis of the register of all of the people unemployed will reveal that the greatest percentage are in the lower-age groups and not in the higher-age groups. That is natural because of the fact that age and experience are very important factors on lots of jobs, and also because of the fact that most companies will hesitate a long time before they will let out the older workers. It is also true, however, that when a man over 45 loses a job it is much more difficult for him to find new employment than it is for a younger man.

Mr. Lewis. His right under any human law ought to be the same.

Mr. Forson. On the other hand, if an employer is seeking skilled workers and finds there is a shortage, he is more inclined to employ a younger man to train than an older one.

There is no question about it that it is a difficult problem, and it is tied up with old age pensions, but most of these people are not old enough yet for a pension. On the other side of it there are many jobs in industries that can be filled by these older people, where the older man will do as good or better work than the younger man. In most of the industries those people are still on the job. They have not been laid off, because they do not want to lay off the long-service

workers. I think a lot of thought is being given to this problem, and industry would prefer to have the older men if they could use them, but, on the other hand, if they cannot turn out as much work as the younger men, they are sometimes compelled as a matter of economic necessity to take the younger men.

Mr. LEWIN. Of course, the elemental approach of the industrial lender to this subject is his responsibility for the proper financial return on the investment, and is different from the public demand. It seems to me the approach of the lawmaker must be: That this industrial system must undertake to support the human beings dependent on it and provide an opportunity for all to earn their living from the sweat of their brows. The feudal system provided some for every human being, and even under slavery the master did not fail to feed and clothe the slave, no matter what might happen to crops or markets. Now, it is from such a general view of the matter that I think the lawmaker will determine his approach. He realizes what you say about the motives which must dominate the individual charged with the responsibility for success in his industry. Inasmuch as you have given such profound and prolonged consideration to the subject I was hoping you had found some method by which those higher rights could be secured.

Mr. FORBES. I feel that we should have old-age pensions, for instance, to take care of the older men, say, those over 65. I think that most of the workers between 45 and 65 are still kept in industry, but in a number of cases they are out, and those in this age group who are out are going to have a very difficult time getting a job. I think industry can do something along those lines that Mr. Ford has advocated for some time, of studying the jobs in industry to see if more and more of those jobs can be filled by the older workers. However, I think you will find in the next few years a larger number of people in this unemployable group, old people who simply do not meet the qualifications for the work. I do not think that burden should be placed on industry as a whole. I think society should take that burden. I think you are placing enough responsibility on industry by saying that they are responsible for their regular workers, providing for those workers during periods of unemployment and during old age after 65.

That is my view of it, and if you approach it in that way we can get up a very sound scheme for the future. If we say to industry you must protect these regular workers, those of over 6 months of service, and provide them with unemployment benefits from a fund built up during a period of years, the result will be that when we get to a depression the employer will gradually reduce the hours, and the next few months keep the workers occupied 50 percent of the time and pay no benefits. Then if the depression is very deep, if they have to cut production to more than 50 percent, then it will be necessary to lay off the workers, and they will receive the benefits for 16 weeks or 18 weeks. At the end of that time if the worker has, in the meantime, built up his own saving fund, then he will start drawing from his own money, and that fund. In case you get into a deep depression like this, going over 3 or 4 years then society must step into the picture. I think the problem now is to get up from all of the experience we have had with relief systems one sound system of handling relief. We have had enough experience by this time to be able to determine

a sound system of relief. Whatever is done the burden should be placed where it belongs. Part of it belongs to industry, and part of it belongs to society as a whole.

Mr. BOEHNE. Don't you think, though, that the American people are loathe to look at things from the long-range point of view?

Mr. FOLSOM. I think there is no question of that.

Mr. BOEHNE. That is the unfortunate part of it.

Mr. FOLSOM. I think the lawmakers ought to take the long-range view.

Mr. BOEHNE. Exactly.

Mr. LEWIS. At the beginning of your remarks will you put in a detailed statement of your background on this subject and industrial experience? You did not at any time mention the number of employees involved in those companies.

Mr. FOLSOM. I think you were out at the time, Mr. Chairman. There are 12,000 workers in these companies.

Mr. LEWIS. The committee thanks you very much.

(The article referred to is as follows:)

FUTURE PROTECTION OF THE JOBLESS

Indications are that the force of the Federal Government will be used to make unemployment benefits compulsory. One bill for this purpose is being prepared. Mr. Folsom helped draft the United States Chamber's unemployment benefit plan and also the Rochester plan. He served on the New York commission which studied the subject. His article will help you estimate what will be expected of you under the various forms Government action may take.

(By M. B. Folsom, assistant treasurer, Eastman Kodak Co.)

Although the British dole system has been widely criticized in this country, our present system of administering relief to the families of the unemployed is nothing but the dole. In fact, in many parts of this country, relief is handled less systematically, economically, or humanely than under the British system.

The result is a widespread search for better methods of meeting the situation either by law or by individual effort. The methods most often discussed are unemployment insurance and unemployment reserves. They are quite different things.

Under an unemployment insurance plan an attempt is made to measure the risk of unemployment and to establish an adequate premium to cover that risk.

The risk of unemployment is more difficult to measure and predict than other risks generally insured against—death, illness, accident, old age, or fire. For this reason insurance companies have not entered this field. Experience in Great Britain, Germany, and other foreign countries indicates that unemployment insurance cannot be put on a sound basis.

Under a plan of unemployment reserves, an individual company or industry accumulates a fund from which benefits are paid during a specified period to regular workers laid off because of slack work. The total benefits are limited by the amount in the reserve fund. Such a plan influences the employer to stabilize, and yet, should it become necessary to lay off workers, unemployment benefits can be paid for a limited time.

Before the present depression 13 companies in this country had unemployment benefit plans. In 1930 the General Electric Co. inaugurated its plan; 19 companies in Rochester adopted the Rochester unemployment benefit plan in 1931, and a few other companies elsewhere have adopted plans recently. Approximately 40 companies with some 125,000 workers in normal times now have unemployment benefit or reserve plans.

The Rochester plan with a few minor modifications was recommended for employers generally by the United States Chamber of Commerce in 1931. Under this plan each company will build up its own reserve fund by annual appropriations up to 2 percent of the pay roll until the fund reaches a maximum of five annual appropriations. All employees who have been with the company a year or more and who earn less than \$50 a week are eligible for benefits.

PAY FOR UNEMPLOYED

The unemployment benefit is 50 percent of the employee's average earnings with a maximum of \$18.75 a week. Benefits begin after two continuous weeks of unemployment. The number of weekly benefits to be paid varies with the length of service, with a maximum of 13 weeks in 12 consecutive months. Employees working less than 50 percent of normal time will receive in benefits the difference between their actual earnings and the full benefits to which they would be entitled.

Because of the greater simplicity of administration and because the employees will be bearing a great part of the cost of unemployment anyhow, the companies made the plan noncontributory in normal years. In a prolonged period of unemployment, if the fund becomes inadequate, an emergency will be declared and all officials and employees not receiving benefits will be assessed 1 percent of their earnings which, with a similar appropriation by the company, will be added to the reserve fund.

The United States Chamber plan was favorably received but few companies have adopted it.

This is not surprising. Most employers have been so busy meeting present emergencies that they could not attempt to provide for future depressions. It is probable that, with a general improvement of business, many of them will adopt plans of some sort.

THE WISCONSIN PLAN

Such voluntary action is preferable to action forced by legislation because these individual plans would follow several different lines and provide information which is now sorely needed. Employers should realize, however, that legislation is likely in the next year or two in several industrial States. Wisconsin already has a law on unemployment reserve plans and commissions appointed in several other States have urged legislation.

The Wisconsin law, passed in 1932, requires all employers of more than 10 persons to set up reserves from which unemployment benefits of \$10 a week can be paid for 10 weeks in 1 year. Employees earning \$1,500 a year or less are covered, except farm laborers and domestic servants.

An employer may set up his own fund, may join with other companies, or may contribute to the State fund. Separate records will be kept of each company's account in the State fund. The contribution (all by the employer) is 2 percent of the pay roll until the reserve amounts to \$55 for each employee covered and one percent until the reserve amounts to \$75 per employee. The act was to have gone into effect July 1, 1933, unless by that time employers with 175,000 employees had voluntarily established equally liberal plans, but the effective date has since been extended to July 1, 1934. Because each employer's fund is kept separate, the plan serves as an incentive to him to stabilize his force.

On the whole, this is a good plan, although some of its provisions may be questioned. For instance, all factory workers of more than 2 weeks' service and all salaried workers of more than one month's service are covered. It seems unreasonable to expect an employer to pay unemployment benefits to an employee of such short service.

The provision that, while benefits are not to be paid to a worker who refuses nearby suitable employment, he need not accept work "if the wages, hours, or conditions are not those prevailing in similar work in the locality or are such as tend to depress wages or working conditions", also provides a loophole for many irregularities in administration.

The law sets up a complicated administrative system, with all the costs and disadvantages that go with it; but this is inevitable under any State scheme. The Wisconsin plan seems to meet with more general approval than any other so far proposed, and it has been the basis of most of the plans recommended by State commissions.

The plan recently recommended by the Ohio Commission, however, is entirely different. It provides that all employers of three or more persons set aside 2 percent of their pay roll and that employees contribute 1 percent, all to be pooled in one State fund. Benefits would be payable 1 year after contributions begin. The weekly benefits would be 50 percent of normal wages with a \$15 maximum. There would be a waiting period of 3 weeks. The maximum number of benefits in 1 year would be 16, or the equivalent of 16 full weekly benefits to a person partially unemployed. The provision for part-time benefits allows those partially unemployed always to receive more than those wholly unemployed. All employees, regardless of length of service with an individual employer, are covered

except those receiving more than \$2,000, farm laborers, domestic servants, Government employees, and casual workers.

All employers must contribute at the same rate until 1937, when the experience of each employer will be checked to see if his rate should be higher or lower. After that time, the rates may be varied from 1 percent to $3\frac{1}{2}$ percent. No record is kept of an individual employer's fund and no maximum is set for the amount in the reserve. Neither is any record kept of the employee's individual contributions.

ON AN ACTUARIAL BASIS

It is claimed that Ohio has sufficient records of unemployment so that the plan can be put on a sound actuarial basis; that, under the compulsory reserve system, sufficient reserves would not be set aside by individual employers to pay adequate benefits, whereas by pooling all the contributions in one fund more adequate benefits could be paid; that the proposed act differs from governmental unemployment insurance in Great Britain, Germany, and other countries, mainly because the State does not contribute or assume any of the administrative expenses.

It is true that such a plan would build up larger reserves than if the same rates were applied under an individual reserve system. There are, however, a number of disadvantages.

There is little real difference between the Ohio proposal and the governmental plans which have resulted to disastrously abroad. The experience with unemployment insurance here is likely to be the same. The predictions would probably prove inaccurate; the funds accumulated inadequate, and the State would then be called on to make appropriations. Thus the plan would be converted into a relief system. The German plan originally provided for no contributions by the State; yet, when the fund built up by the employers and employees became insufficient, the Government voted large subsidies. Latest reports indicate that only a small percent of the unemployed workers in Germany are actually receiving insurance benefits; the great bulk are receiving public relief.

NO INCENTIVE TO STABILIZE

Both Great Britain and Germany originally provided that employers with good employment records should pay reduced premiums as an incentive to reduce fluctuations in employment. These provisions were discarded when the funds were depleted. It is a grave question whether this would not also happen under the proposed Ohio bill. The employer thus would have no incentive to stabilize and, in the final analysis, the stable concerns would be subsidizing those which would not or could not stabilize.

The strong companies would also be supporting the weak as has been the case in England. The employer would be encouraged to lay off workers when necessary to curtail production, and not try to spread work through part time. Even should the rates be reduced to 1 percent there would be an incentive to reduce the number of workers and size of pay roll, as the contribution would be based on the pay roll.

The provision for pooling all the employees' contributions would probably prove unpopular with the better type of workers. The high-grade, stable worker who is seldom unemployed would draw few benefits. The least efficient worker, the casual worker, and the worker who is employed only for a few months during prosperous times would receive the benefits.

Another objection is that benefits are paid to workers discharged or voluntarily leaving and that there is no length of service qualification. The Ohio proposal is, in effect, a relief system. This being the case, would it not be better to devise a relief system as such and not call it insurance?

I believe it is. I believe, too, that, if legislation is coming, it is better for employers and organizations of employers to cooperate in framing such legislation rather than leave the job to those who have little, if any, practical experience in industry. For this reason, I am suggesting a plan for legislation upon which employers might agree.

FEDERAL GOVERNMENT COULD AID

It is generally considered impractical and undesirable to have Federal legislation setting up unemployment reserve plans. The Federal Government could exempt from taxation funds set aside for unemployment reserves and, in addition, let the employer take as a credit on his income tax a certain percentage of his contributions to the fund.

No State legislation for unemployment reserves should attempt to meet the present emergency, because reserves must be built up during a period of years before any payments can be made. Obviously employers are in no position at present to accumulate reserves. Any legislation which is enacted should provide for no contributions until we are well on the way out of this depression. It should be stipulated that contributions would be made for at least 2 years before benefits became payable.

The bill should follow in general the lines of the Wisconsin act. It would require employers of more than 10 persons to build up a reserve fund with contributions of 2 percent of the pay roll until the reserves amount to \$75 per eligible employee. Employees of more than 6 months' service would be eligible, thus confining the benefits to the regular employees for whom the employer would feel responsible.

Employees receiving more than \$2,000 a year, farm laborers, and domestic servants would be exempt. A benefit of 50 percent of normal pay with a maximum of \$15 could be paid to workers laid off because of slack work after a waiting period of 4 weeks. The 4 weeks' waiting period would prevent the fund from being depleted by short periods of unemployment. The number of benefits would depend upon the employee's length of service, with a maximum of 13 weekly payments during 12 consecutive months.

Payments would not be made to workers who refuse to accept suitable employment. Benefits would be paid to part-time workers to make up the difference, if any, between their actual earnings and 50 percent of normal earnings.

If the plan was a contributory one, a separate fund properly trusted would be created in which a record would be kept of each individual worker's contribution.

Benefits would be paid from the employees' fund after payments from the employer's fund had ceased. Any balance in the employee's account would be paid him upon leaving the employ of the company or upon retirement, or to his beneficiary on his death.

An individual employer or a group of employers should be permitted to set up and administer their own plan provided the benefits are at least equal to those of the State plan and the funds are properly trusted.

Other employers would contribute to the State fund but an account would be kept with each employer. Under the self-administered plans and in all cases if possible, benefits would be paid direct to the employee by the employer rather than by the State.

LIABILITY TO BE LIMITED

The employer's liability would be limited by the amount in his reserve fund. When the fund was exhausted, benefits would cease until additional contributions had been made. The legislation should include safeguards to prevent the plan's being converted into a relief system.

Such a plan would not help immediately, but during the next few years it would benefit the employer, the employee, and society as a whole. In actual practice, it would tend to reduce unemployment. Since the employer would save to the extent to which he stabilized, he would undoubtedly try to plan production so that he would not have to lay off workers.

In seasonal fluctuations he would probably reduce working hours rather than lay off workers, because, if he could keep the force occupied 50 percent of the time, no benefits would be paid. This would also take care of curtailment in production necessitated by minor depression.

For employees laid off in normal times because of technological changes or changes in product, the plan should serve as a dismissal wage.

During normal times or in minor depressions the plan would help to reduce unemployment, and the greater part of the fund would probably be conserved to provide unemployment benefits during periods of severe depression.

The funds would be invested in short-term Government or municipal bonds which could be readily marketed. The demand for short-term Government securities recently indicates that the sale of these securities by trustees would have little effect on the bond market.

Economies in production costs, brought about by reduced fluctuations in employment, lower turnover, and better morale of the force, would go a long way to offset the employer's appropriations to the fund. This has been the actual experience of some companies with unemployment benefit plans.

EMPLOYEE WOULD BENEFIT

The employee would naturally benefit because he would feel more secure in his position and because during normal times he would not suffer so much unemployment as in the past. Should he be laid off during a period of deep depression, he would receive benefits for a number of weeks which, with his own savings, would help tide him over.

Society as a whole would benefit by the reduced burden of providing for those affected by seasonal unemployment and minor depressional unemployment and the reduced load on the public relief organizations in times of deep depression.

The workers would not be dependent upon public relief so early and there would probably be fewer ultimately dependent upon it. At the same time the benefits paid to the unemployed would help to maintain purchasing power and serve as a cushion to keep the depression from going as low as it otherwise would.

The adoption of reserve plans means that employers accept a certain responsibility for their regular and stable employees. Society as a whole should provide for the relief of the casual workers, those who shift from one employer to another, and those who are unemployable because they lack mental or physical qualifications. During an extended depression it would be necessary for society to take care of the additional load of the stable employees laid off, but this load would not be nearly so great as at present.

EMERGENCY RELIEF, TOO

It is impossible to predict what such a load would be during a severe depression and to build up sufficient reserves to place it on a sound insurance basis. For this reason it would be bad policy to attempt under any plan of unemployment reserves or unemployment insurance to provide for this contingency. Would it not be better to have a sound system of relief to handle this emergency load?

This relief system should be entirely separate from the unemployment reserve plan and should be based upon the experience of municipalities and States in the present emergency especially in regard to work relief.

With the proper system of unemployment reserves and a better system of relief to be administered by governmental authorities, the country should be in a much better position to meet future unemployment problems.

STATEMENT OF HENRY E. JACKSON, PRESIDENT SOCIAL ENGINEERING INSTITUTE, NEW YORK CITY

Mr. JACKSON. Mr. Chairman, inasmuch as I expect to make some suggestions as to fundamental changes in this bill, and also one suggestion answering your last question to Mr. Folsom, I would like to make it first of all quite clear that I am heartily in favor of the purpose of this bill.

Mr. LEWIS. Mr. Jackson, might I interrupt. Will you please give the committee your background relative to industry or to this subject matter?

Mr. JACKSON. I am a social engineer. I am dealing now and working with large industries, trying to persuade them to install plans, protection plans against these major hazards of industry. Previous to that I worked with Franklin K. Lane in the Interior Department promoting community organization work and land-settlement work in Washington under the Wilson administration.

So, I would like to make it quite clear that I am a little embarrassed even to appear to be critical, but I want only to be helpful. Therefore, I want to say I am heartily in favor of the purposes of this bill and its objectives. I believe it will be financially advantageous to everyone concerned, and to the employer because it will increase the buying power, and to the employee because it will relieve him of suffering and humiliation, and to the taxpayer because I

think no industry has any right to scrap its unused human machinery on the public during unemployed periods so that the community either through charitable gifts or by appropriations from the Public Treasury is called upon to take care of such people. Therefore, it seems to me it is justice to everyone concerned, and I believe that all enlightened employers will agree and admit that such a provision is good.

However, this present bill, Mr. Chairman, seems to me to be unnecessarily complicated and I think it is quite inefficient. Now, what I mean to say is that I think we can amend it in certain fundamental particulars which will greatly improve and assure its purpose. That is to say, in its present form I feel that it would help to defeat itself. Let me make an incidental remark first in order to clarify the matter. I notice everyone in speaking of this bill calls it unemployment insurance. That is a misnomer, an inaccurate statement, because this hazard is not an insurable hazard; it does not belong to that class. Many of the other major hazards of industry, death, disability, and old age can be actuarially calculated as to the cost of them. You can apply the insurance principle of measuring the risk to those hazards, but the employment hazard is not an insurable risk, and the word "insurance" applied to it is likely to be quite misleading, because we cannot apply the insurance principle to that hazard which involves certain factors that are not ascertainable and cannot be calculated beforehand and, therefore, the proper term is to set up an unemployment reserve fund. What cannot be accomplished by the insurance principle can easily be accomplished by the banking principle; that is by stating a limited liability for a definite period. I would like to suggest that this bill dealing with the relief of unemployment hazard ought to include all the factors that bear on that problem. It has been mentioned twice here by members of the committee, reference has been made to annuities and pension plans, for example. It is very little realized as yet that the scientific retirement system in industry for worn-out workers has a very direct and immediate bearing on the decrease of the amount of unemployment. A short time ago I made a calculation from some advance figures from the Census Bureau here to indicate how many men probably there were in American industries of 65 years of age and over, and my investigation led me to conclude that there were well over a million. If, therefore, American industry today had in operation a retirement system to retire worn-out workers of 65 years of age and over they would automatically eliminate one million men from our problem. That is to say, they would be replaced in their service. They would not be added to the list of unemployed; they would be added to the list of annuitants.

Mr. LEWIS. Mr. Jackson, can you file with your statement statistics on how that million computation was made?

Mr. JACKSON. I should be very glad to, sir. That leads me to suggest that that would be a very wise place in which to begin with the elimination of the problem of unemployment because all employers readily recognize that they ought to have retirement systems, and there are now at least four hundred plans in operation in industries now. Therefore, that would be very agreeable to them. Moreover there are other reasons why they should put such plans in. I am sure it would be for financial and for other reasons, but I think what

needs to be made clear is this, and I have not seen it recognized anywhere, so far as I know, that a scientific retirement system would not only decrease our unemployment problem immediately, but it would constantly keep on decreasing it automatically.

Therefore, I would suggest that the bill might very properly cover all of the hazards, because they are in a real sense connected with unemployment. A man who is disabled for example is unemployed. A man dies and the breadwinner is removed from the family so that that family is a burden because of the loss of the breadwinner. Death, disability, dependence in old age, and involuntary unemployment very well could be covered in this bill.

There are other reasons, too. In determining the cost or the amount of reserves to be required to be set up by employers on the unemployment hazard it seems to me it would lead us to a wiser conclusion if we reckon that in connection with the expenses which the employer now has to meet with reference to these other protection programs and I think that should be noted rather carefully.

The next thing that I suggest is that I believe, and I feel that it would be a mistake for this bill to stimulate the States to pass legislation. It would lead to endless confusion and discussion and debate and contentions and great variety in the requirements of these various State laws. However much we might determine the basic requirements there will always be a great variation in the requirements by the different States, and one industry, for example, that has plants in 6 different States, would have to deal with the requirements of 6 separate State laws, and keep 6 separate sets of books which would be a needless burden to them, but there is a much more profound reason than that: We have not become an industrial unit; the Nation has become an industrial unit. Our whole political theory originally was based upon the existence of these separate State sovereignties before we were a Nation, and that is the controlling method of our legislation, I admit, but it is really out of harmony with the industrial economics for us today. If we are going to seek a bill to control industry, an area in our life, it seems to me it ought to be harmonious with the area which it controls, which is industry, and I would earnestly urge the committee to remember, as Mr. Folsom also suggested, that this bill require industries in America to adopt such plans either on this hazard or on all hazards and if it impose such tax, the tax be automatically abrogated if the industry adopts a plan. It seems to me that is a simple and direct method of legislation and would be much more effective and efficient, and it would also avoid considerable delay. Suppose this tax is imposed this way and the State legislatures do not pass or delay passing their legislation, one industry may for a period of time have to comply with the terms of this bill and another industry may not, and I think, therefore, it might work an injustice.

The next thing I want to suggest is as to the amount of the tax. A tax in amount equal to 5 percent of the pay roll of the industry I believe is a very burdensome tax to impose on industry at the present time, when industries everywhere are in a crippled condition. Not only so, it would be a burdensome tax at any time, and I believe it is not necessary. It is too high. It will never be required under the terms of this bill. I mean to say, to produce the proposed benefits. For example to show what this would amount to, and what 5 percent would furnish, let us take normal conditions, and, of course, there

would be variations from those conditions but, say that is in 5 or 6 prosperous years and we will pile up those reserves to furnish a certain amount of wages during a depression period of 1 year. Suppose we take 5 years to build up a reserve of 5 percent of the pay rolls put into such a reserve during the 5 years, it would furnish in 5 years 25 percent or one fourth of the wages of those employees for 1 full year. Now, as a matter of fact, not all of the employees of any industry would probably be laid off or unemployed for any 1 year. Therefore, that is too high. It is too much. It is not necessary. If you make it cooperative, that is to say, the employer contributing his part and the employee contributing his part, you would get that 5 percent, cutting it in half, making it $2\frac{1}{2}$ percent being contributed by the employer, and $2\frac{1}{2}$ percent being contributed by the employee, and if you take account of the interest, of the undistributed balance while the reserve was being accumulated it would only require 4 percent. Therefore, if the employers contribute 2 percent and the employees contribute 2 percent it would furnish one fourth of the men's wages for a 1-year period. Therefore, using this illustration, I make this suggestion: There is no way of knowing beforehand what the cost of this will be. Therefore it seems to me a fallacious method to put into a bill, either in the State legislatures or in the Federal bill, to state what the employer ought to deposit in his reserve fund.

I think that is out of place. More than that, I think it is also a fallacious principle to state in terms of dollars the benefit to be distributed. It seems to me here is the principle and the effective principle is for any bill to state in terms of percentage of pay roll the amount of benefit to be distributed and the length of time it is to be distributed, requiring the employer to set up whatever reserve fund may be necessary to furnish the stipulated benefits, and that is all. What the cost of this will be nobody can foresee. If he regularizes his employment his cost may, in fact, be nothing. Procter & Gamble have so regularized their employment that they would not draw on that fund at all. You may require them in connection with other industries to set up certain reserve for the unemployment reserve, to set up 2 percent, but that would be a saving for the company, because they would not need to disturb any of that. Therefore, I think the employer who regularizes his employment plans as a protection ought to be rewarded for that achievement by not having to pay out of his reserves. Therefore, the net cost may be anything from nothing on up to 3 or 4 percent. Now, there are 33 industries in America who have started such a plan. I do not have that list with me just now, but 33 have done it, including the one reported by Mr. Folsom. I have a detailed record of the exact expenses over a period of 8 or 10 years from each one of those companies, or most of them, what the actual net cost was, and the cost does not range much over, I would say, in the average about 1 percent, 1.3 percent in one case and 0.9 of 1 percent in another case, and that is their actual experience, because that they did not have to disturb any of it. To a large degree, it seems to me it ought to be left to each individual industry to draft and formulate its own plan and administer its own plan, just so long as it conforms to certain specified minimum standards set by this bill.

Mr. LEWIS. Granting that all of the superior employers, stabilizing and regularizing their business, are exempted, then you leave a lot of insolvent or half insolvent employers who have not anything to con-

tribute. In other words, the ability to set up a fund to protect this unemployment plan is reduced as you let out the successful stabilizers from your plan of contribution.

Mr. JACKSON. I did not understand that your thought was that the contributions might be the same companies.

Mr. LEWIS. Discuss the subject freely and not merely with regard to the terms of the bill, but freely.

Mr. JACKSON. It seems to me every industry ought to stand on its own feet.

Mr. LEWIS. You mean every company?

Mr. JACKSON. No; you need not have every company; for example, the electrical industries, and Mr. Swope has made the suggestion that they compile their own fund as so many electrical industries.

Mr. LEWIS. Each trade?

Mr. JACKSON. Yes; trade. That could be done. You do in a degree apply your insurance principle to that extent of applying that risk, and help bearing each other's burdens. I think such freedom ought to be left in this bill to the trades.

Mr. LEWIS. To the trades?

Mr. JACKSON. Yes; to the trades. I think that is a very good suggestion.

I come to my own little objection, and I want to make an answer according to the last question you asked Mr. Folsom. By whatever method we set up in unemployment reserve fund, either voluntarily, or through State legislation or directly by the Government it is intended, I assume, and I think it could be only intended to take care of what we might call seasonal unemployment, that is to say, unemployment due to the natural fluctuations of the business. I have made a little calculation of what that would mean. I think it is only fair to put on industry the responsibility for caring for that amount of unemployment which is a consequence of its own operations, but if you attempt to put on industry the responsibility of caring for that volume of unemployment which is not due to their operations, but due to the breakdown of our whole banking and industrial system, it seems to me that the plan essentially will be a bankrupt plan, it is impossible. For example, what we call a normal amount of seasonal unemployment would cover, I calculate, about two and a quarter millions of unemployed. That is, that is the average for 10 years between 1920 and 1929, inclusive. Literally, the exact figure is 2,348,800. You will please note that that will probably not be less, because that is the amount of seasonal rather than normal unemployment, and during a very prosperous period, and we always will have a degree of unemployment, and we always ought to have. For example, if an employer has a reserve fund set up so that he can afford without doing his employees an injury, to shut his plant down for 3 months in order not to flood the market he is rendering the public a service. There always ought to be a certain amount of seasonal unemployment. Such a bill can take care of that amount of unemployment, but when it comes to 4 million, 6 million, 10 million, or 12 million, it seems to me quite obvious that no plan that could be devised could provide the necessary funds to take care of those unemployed men, and even these benefits provided in this bill are very meager, \$7 a week for 10 weeks, \$70.

Suppose we have an unemployed period for 1 year or for 2 or 3 years, but let us take 1 year, what is \$70 in the way of increasing our mass purchasing power? It is wholly inadequate. I say it is humanly impossible to expect any plan to take care of this excess unemployment in periods like the present.

Therefore, it seems to me it would be a mistake to pass this bill at this particular time unless we amend it by a provision which offers a way of absorbing the excess amount of unemployment. Before I forget it, let me state that I think this is a very opportune time to start this movement in industry. Suppose that we pass this bill and require all industry to adopt such protective programs, but do not require them to set up their reserves, say, beginning July 1, 1935, but fix a date for the adoption of these plans so that industries will know that it is expected of the members in industry, but give them 3 years after that date to accumulate their reserve because of the present economic situation. I think it is an opportune time to start it, but avoid putting a financial burden on industry at the present time that will probably kill off our whole movement. Now, in addition, and at the same time our immediate urgency is to devise a method by which we can absorb this excess unemployment, and if we started a movement now, immediately, to absorb the excess amount of unemployment then the whole protection program on all four hazards would be anticipated with some degree of enthusiasm by industries everywhere. What is that method of absorbing the excess unemployment?

Mr. LEWIS. We will have to leave at 12 o'clock. Can you finish in 5 minutes?

Mr. JACKSON. I can finish in 2 minutes. It took me 20 years to learn what I am now about to say in 2 minutes. I have concluded that it is obviously the practical and feasible method for absorbing all of our excess unemployment, and that is the farm village, the farm village. Henry Ford has made a demonstration of this, and we have had demonstrations of it for years, not only in America, but in Europe, and especially in Denmark. It is merely the setting up of farm communities added to our industrial centers. Henry Ford has established a village where each man has 1 or 2 or 3 acres of land and his cow and his pigs and chickens; where he can raise vegetables and things on his own little homestead. He has put one of his plants there to fabricate certain articles used in connection with the automobile. Gentlemen, at no time during the last 4 years of depression have any of the residents of that village, not one of the citizens of that farm village was on any dole, or received any outside whatever. The National Recovery Act has appropriated \$25,000,000 for subsistence homesteads. This is for experimentation only. My suggestion is, and I think the thing that would assist our recovery program more than anything else that has happened or could happen, would be for this committee to include all four hazards of industry in this protection program in this present bill, and supplement it with the provision that all of the money that is being spent by the Government now for the C.W.A., the P.W.A. and subsistence homesteads should be integrated and amalgamated into one organization, and that we stop giving any more money away and increasing the tax bill of the American public and devote it exclusively to the building of farm villages in connection with our industrial plants near cities easy of access to

them. It is a self-supporting operation. It is a worthy and practical enterprise.

The Government would spend no money for it. It would cost the American Government not one cent. It would be a self-liquidating enterprise from the very beginning, and, Mr. Chairman, it does seem to me as one of those who see the solution of the absorption of all excess unemployed in America now that the fact that we have let the labor of these unemployed men go to waste for the last 3 or 4 years is nothing short of a crime, and my earnest suggestion is that this committee consider very seriously amending its present bill with a provision providing a way by which these unemployed could be immediately set to work on a large scale all over the United States with the goal, and stopping nothing short of this goal, the abolition of unemployment as a problem. We will always have unemployment, but it will not be a problem if we have this reserve fund set up by industries and if we have a way by which these people could go to work and help to build their own homesteads on a self-liquidating basis, the idea being that these employees, if they get even part wages for 6 months of employment in this factory, together with their own little plantation would not be a burden on the public, and no charitable funds would be required and no public appropriations would be required, they could be self-supporting, and it would be a great relief, Mr. Chairman, to American industry not to have to reabsorb the present number of unemployed in industry. I do not believe it can be done physically, but it would be of great benefit not to do it, because if we did, it would tempt us to drive our industrial machine to the fullest extent and produce goods for which we would have to seek foreign markets which would be a very troublesome and dangerous thing to do. If we were in a position to utilize our unemployed so that industry could regulate its production according to the need I think we would be on the right track.

Mr. Lewis. Thank you. We will not be able to meet this afternoon because of appointments in the House. We will meet tomorrow morning at 10 o'clock. I believe there are other witnesses yet to be heard.

(Whereupon, at 12 noon, the committee adjourned until tomorrow, Friday, Mar. 23, 1934, at 10 a.m.)

Bills for unemployment reserve funds in New York State Legislature, 1934

	Byrne-Cordon bill	Steingut-Mastick bill	Ehrlich bill
1. Employers covered.....	Person, partnership, association, corporation, excluding State and municipalities, employing 4 or more persons.	Person, partnership, association, corporation, excluding State and municipalities, employing 4 or more persons.	Person, partnership, association, corporation, excluding State and municipalities employing 10 or more persons.
2. Employers exempted.....	No provision.....	Employer or group of employers with plan for unemployment benefits which (a) makes eligible for benefits at least employees eligible under State plan and at least to same amount; (b) provides benefits, financed by employer, equal to or greater than State plan; (c) on whole as beneficial as State plan. Commissioner may require employer to furnish such security as deemed sufficient to assure payments of benefits, including setting up of proper reserve. If plan is contributory, employees must be represented in administration of plan.	(1) Employer or group of employers with plan for unemployment benefits which (a) makes eligible for benefits at least employees eligible under State plan and at least to same amount; (b) provides benefits, financed by employer, equal to or greater than State plan; (c) on whole as beneficial as State plan. (2) Employers who guarantee 40 weeks of work of 35 hours for 1 year period. Commissioner may require employer to furnish such security as deemed sufficient to assure payments of benefits, including setting up of proper reserve. If plan is contributory, employees must be represented in administration of plan. Exempt employer may set up own trust fund to be invested in Government or municipal securities of less than 5-year maturity.
3. Employers excluded.....	Bill doesn't apply to seasonal industry in which it is customary to work less than 17 weeks in 12 months.	Bill doesn't apply to seasonal industry in which it is customary to work less than 17 weeks in 12 months.	
4. Employees eligible.			
(1) Residence.....	If employed by 1 or more employers in the State for not less than 8 weeks during preceding 52 weeks.	If employed by 1 or more employers in the State for not less than 13 weeks during preceding 52 weeks.	If resident of the State for 2 years or employed for 40 weeks within preceding 2 years.
(2) Availability.....	While available for employment and unable to find employment for which he is reasonably fitted.	While available for employment and unable to find employment for which reasonably fitted.	While physically able and available for work and unable to find employment for which he is reasonably fitted.
(3) Length of service with employer.	No requirement as to length of service with individual employer.	No requirement as to length of service with individual employer.	Employee of less than 6 months' service not eligible for benefits.
(4) Normal wage or salary.	Receiving less than \$2,000 per year.....	Receiving less than \$2,000 per year.....	Receiving less than \$2,000 per year.
5. Employees ineligible:			
(1) As to industry.....	Farm laborers, employment not in usual course of trade, business, or occupation carried on by employer for pecuniary gain, members of immediate family of employer. Employee eligible for benefits if unemployment due to trade dispute. No benefits while receiving compensation.....	Farm laborers, employment not in usual course of trade, business, or occupation carried on by employer for pecuniary gain, members of immediate family of employer. Not entitled to benefits if unemployment due to trade disputes involving employer. No benefits while receiving compensation.....	Farm laborers, domestic servants, teachers, part-time workers. Not entitled to benefits if unemployment due to trade disputes involving employer. No benefits while receiving compensation
(2) Trade disputes.....			
(3) Workmen's compensation.			

Bills for unemployment reserve funds in New York State Legislature, 1934—Continued

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	Byrne-Condon bill	Steingut-Mastick bill	Ehrlich bill
(4) Because of discharge or leaving voluntarily.	Not entitled to benefits except for unemployment which continues subsequent to waiting period of 10 weeks if employment lost through misconduct. Unemployment due to trade dispute does not constitute misconduct. Voluntarily leaving considered the same as lay-off.	Not entitled to benefits except for unemployment which continues subsequent to waiting period of 10 weeks, if employment lost through misconduct or voluntary leaving without reasonable cause.	Not entitled to benefits if employment lost through misconduct or if employee leaves voluntarily without reasonable cause.
(5) Because of refusal to accept work. Exception.....	If he has refused a job offered him in a trade or occupation for which he is reasonably fitted. No employee shall be required to accept employment: (a) in position vacant because of trade dispute; (b) if wages, hours, and conditions be not those prevailing for similar work or tend to depress wages or working conditions; (c) if acceptance would limit right of employee to refrain from joining labor organization or retain membership in organization.	If he has refused a job offered him in a trade or occupation for which he is reasonably fitted. No employee shall be required to accept employment: (a) in position vacant because of trade dispute; (b) if wages, hours, and conditions be not those prevailing for similar work or tend to depress wages or working conditions; (c) if acceptance would limit right of employee to refrain from joining labor organization or retain membership in organization.	If he has refused a job offered him in a trade or occupation for which he is reasonably fitted. No employee shall be required to accept employment in position vacant because of trade dispute.
6. Contribution by employer.	3 percent of the pay roll of employees eligible for 3 years. Rate thereafter to be determined by commissioner for each employer.	3 percent of pay roll of employees eligible until reserve is \$60 per employee; 2 percent when fund is between \$60 and \$80 per employee; 1 percent when fund is between \$80 and \$100 per employee. No contribution after fund is \$100 per employee.	2 percent of pay roll of employees eligible until reserve is \$80 per employee; 1 percent when fund is between \$80 and \$100 per employee. No contributions after fund is \$100 per employee.
Administration fund....	Expense apportioned on basis of benefits paid and assessed against employer. One half of expense of employment offices included in expense. No maximum set.	Exempted employers and State fund assessed share of expenses in proportion to benefits paid but not to exceed three tenths of 1 percent of total wages. One half of expense of employment offices included in expense.	Expense of administration paid by State.
7. Contribution by employees.	None.....	None, but employees may make voluntary contributions to increase benefits.	None, but employees may make voluntary contributions to increase benefits.
8. Reserve fund:			
(1) Maximum.....	None provided.....	\$100 per eligible employee.....	\$100 per eligible employee.
(2) Liability of employer.	3 percent of pay roll for first 3 years. May be more or less thereafter.	Limited by amount of reserve.....	Limited by amount of reserve.
(3) Accounting.....	1 pooled State fund.....	Separate account kept by commissioner with each employer contributing to fund. Commissioner after hearing may require pooling of funds in any industry or locality.	Separate account kept by commissioner with each employer contributing to fund.
(4) Pooling.....	do.....		Pooling of funds by employers in any locality or industry permitted if employers desire it and commissioner approves plan.
(5) Handling of funds..	State commissioner of taxation and finance is custodian of fund, interest added to fund.	State commissioner of taxation and finance is custodian of fund, interest added to fund and prorated to accounts.	Comptroller is custodian of fund, interest added to fund and prorated to accounts.
(6) Investment of funds.	United States Government, State and municipal bonds.	United States Government, State and municipal bonds.	United States Government, State and municipal bonds of less than 5-year maturity.

(7) Central reserve fund.....			
9. Administration.....	Department of Labor with industrial council in advisory capacity, and State employment offices.	10 percent deducted from each employer's account for central reserve fund. Central fund drawn on to bring any employer's benefits up to 50 percent of normal rates when employer's account is insufficient.	Department of Labor with advisory employment committee, State employment offices and district employment board in each county.
10. Effective date as to contributions.....	Oct. 1, 1934.....	Department of Labor with industrial council in advisory capacity, and State employment offices. Jan. 1, 1935.....	60 days after New York State employment index for 6 consecutive months has increased 20 points over December 1933 level but not prior to Jan. 1, 1935.
As to benefits.....	Oct. 1, 1935.....	Jan. 1, 1936.....	2 years after contributions commence.
11. Unemployment benefits:			
(1) By whom paid.....	Benefits paid in such manner as commissioner may prescribe. Claims filed with district employment office.	Benefits paid in such manner as commissioner may prescribe. Claims filed with district employment office. Exempt employers make own payments.	Benefits paid direct by employer.
(2) Amount.....	Over \$20 wage, \$15 per week; \$15-20, \$12.50 per week; \$10-\$15, \$10 per week; under \$10, \$5 per week with maximum of 75 percent of wage.	\$15 per week or 50 percent of average weekly wage, whichever is lower.	\$15 per week or 50 percent of average weekly wage, whichever is lower, with minimum of \$5 per week.
(3) Waiting period.....	3 weeks (not more than 3 weeks as waiting period within any 16 consecutive weeks). 10 weeks if employment lost through misconduct.	3 weeks (not more than 3 weeks as waiting period within any 13 consecutive weeks). 10 weeks if employment lost through misconduct or voluntary leaving without reasonable cause.	4 weeks waiting period for lay-offs. No benefits for those unemployed through misconduct or voluntary leaving.
(4) Number of benefits.....	Maximum, 16 weeks in any 12 months: (1) 1 week's benefit for each 3 weeks of employment during preceding 52 weeks. (2) Salaried worker, 1 week's benefit for each month of employment within preceding 12 months.	Maximum, 16 weeks in any 12 months. 1 week's benefit for each 3 weeks of employment within preceding 52 weeks. If employed by more than 1 employer during 12 months, payments of benefits due made in inverse order.	Maximum of 16 weeks in any 12 months.
(5) Part-time workers.....	Committee to be appointed to make recommendations re benefits for partial unemployment.	Committee to be appointed to make recommendations re benefits for partial unemployment.	Benefit paid equal to difference between actual wages and full benefit.
12. Conditions for receiving benefits.....	Notice of unemployment given to State employment office in the district.	Notice of unemployment given to State employment office in the district.	Notice of unemployment given to State employment office in the district.
13. Claims for benefits where filed.....	State employment office.....	State employment office.....	State employment office.
Appeal of disputed claims.....	Appeal board of 3 set up in each appeal district, consisting of representatives of employer and employees and an umpire. Central appeal board of 3 umpires. Appeal on questions of law may be taken to court.	Appeal board of 3 set up in each appeal district, consisting of representatives of employer and employees and an umpire. Central appeal board of 3 umpires. Appeal on questions of law may be taken to court.	Review by State industrial board.
14. Credit on State tax.....	No provision.....	No provision.....	25 percent of payments made by employer into unemployment reserve fund should be allowed as a deduction from State tax paid by employer.

UNEMPLOYMENT INSURANCE

FRIDAY, MARCH 23, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. David J. Lewis (chairman) presiding.

Mr. Lewis. The committee will please come to order. Will you proceed, Mr. Andrews, and describe your relation to this subject matter, and what you are doing. Mr. Andrews is testifying a little out of place, and we trust it will not prove a serious inconvenience to anyone.

STATEMENT OF JOHN B. ANDREWS, REPRESENTING AMERICAN ASSOCIATION FOR LABOR LEGISLATION, NEW YORK, N.Y.

Mr. Andrews. My name is John B. Andrews, secretary of American Association for Labor Legislation, with headquarters in New York City, at 131 East Twenty-third Street. For more than 25 years I have worked for constructive social legislation, for accident-compensation laws, for old-age-pension laws, and more recently for unemployment insurance. I have, in fact, been steadily at this work, Mr. Chairman, since the time when you succeeded in getting the pioneer workmen's compensation law enacted in Maryland just a quarter of a century ago. I am appearing at these hearings at the request of your committee.

I was asked particularly to discuss today the status of the pending legislation in the States, and to give my opinion as to the effect of the present bill upon the fortunes of the measures introduced in the various States. Four years ago I got a committee together to draft a bill for unemployment compensation legislation by the States. We distributed our plan in thousands of copies and public interest in unemployment during this depression led to the introduction of the bill in many States.

Last year, in fact, 68 compulsory unemployment compensation bills were introduced in 25 State legislatures and bills were passed through one house in seven of them. For the convenience of your committee I will simply file a brief analysis of these 68 State bills as a part of the record.

Mr. Lewis. Very good.

Mr. Andrews. In most respects the bills are very similar and the measure introduced by Senator Wagner for the District of Columbia is the form that has been most widely discussed during the past 4 years.

Mr. Cooper. As to these 68 bills which you speak of, are they all identically the same?

Mr. ANDREWS. They are not the same, but there is a certain standardization of provision which has already been reached, so that one may say that probably 90 percent of the bill is in effect identical in the different bills introduced, but there are varying provisions from State to State.

Mr. COOPER. My reason for asking that question is that it appears to me that it would be better not to burden the record with a great many copies of bills introduced in legislatures if the bills are the same. We have difficulty in getting the members to read the record, and when you get it so voluminous, you are really acting against the interest you are trying to serve.

Mr. ANDREWS. I think, perhaps, that I did not make it quite clear that this is a very brief analysis merely of the bills, but not copies of the bills themselves. It is for the convenience of your committee that it is put in the most concise form of only a few pages so as to show you what the activity has been and what the public interest has been at the various State capitals.

I have been going to these State capitals for the past 25 years in support of carefully prepared measures for the legal protection of labor and from the general welfare viewpoint. The opposition has come from employers who have said, "Your purpose is good. Your plan is sound, and if it could be applied with a uniform cost upon all States we would be enthusiastically for it."

Now, it is my privilege, Mr. Chairman, to support enthusiastically your bill which offers the uniformity which employers have desired. Your bill offers complete assurance that enlightened employers will not be undercut in competition with less scrupulous competitors in other States. This is a national challenge to those industrial managers who have year after year obstructed social justice legislation on the plea that it would drive industry from their State. This is their great opportunity to do the right thing without fear of "interstate competition." This Wagner-Lewis bill is the most resourceful proposal ever offered for the protection of employers against "interstate competition" and at the same time for the protection of labor by encouragement of prompt adoption of the needed State legislation.

The bill has been whole-heartedly supported here by the Secretary of Labor and by the Federal Relief Administrator. Moreover, in the *Cosmopolitan Magazine* for April, Mr. Louis McHenry Howe, the secretary to the President writes:

There seems little question that some form of unemployment insurance will be devised, or at least started, by this Congress, and that it will be in operation within the next 2 years.

The administration, however, will defeat its own purpose and retard rather than accelerate State action unless Congress passes this Wagner-Lewis bill at this session. State legislators are now awaiting the adoption of the Federal measure in order that they may fit their local bills into the national plan as enacted. Most of the State legislatures meet next January and not again until 1937. The fulfillment of the Administration's platform pledge of "unemployment insurance under State laws", therefore, requires that there be action by Congress now. It is possible to adopt within the next 15 months in a majority of the States the needed constructive program of insurance against unemployment, but it will be delayed in calamitous

fashion unless the administration through Congress acts promptly at Washington.

With respect to most of the essentials of unemployment compensation legislation adapted to American conditions there is now remarkable agreement throughout the country. The two chief points of difference found in American proposals are exemplified by the Wisconsin unemployment compensation act of 1932 and the unemployment insurance bill drafted by the Ohio Commission on Unemployment Insurance.

Under the Wisconsin act, the only law yet adopted in America, contributions are required of employers only; and in the State unemployment reserve fund so created, each employer will be liable for benefits only to his own employees. Employees may contribute if they wish to increase their benefits; and voluntary pooling of reserve accounts by groups of employers is also permitted. The Ohio bill, on the other hand, provides for compulsory contributions by the workers as well as by employers. In addition this plan would throw all contributions into a single pool.

The Wisconsin act is distinctly an American plan which, like workmen's accident compensation laws, has the double purpose of promoting preventive effort as well as compensating involuntary unemployment. The Ohio plan follows more closely the European schemes of unemployment insurance. Objection has been raised to this plan on the ground that it places a premium on careless management; since an employer who by special effort organizes his business so as to provide steady employment will pay 52 weekly contributions into the fund, while his competitor who does not so stabilize and provides only 26 weeks of employment will pay only 26 premiums. Thus the better employer will be penalized for his better management by being forced to help pay the cost of benefits to the employees of his less efficient competitor.

Senator Robert F. Wagner on June 12, 1933, introduced in Congress a bill, S. 1943, for the District of Columbia which takes a middle ground position between the Wisconsin and the Ohio plans with respect to the pooling of reserves. The text of this bill is appended. With a few modifications, this bill is the standard bill for uniform State legislation prepared after four years of special study and representative conferences by the American Association for Labor Legislation. This draft is commonly known as the "American Plan," and has been widely endorsed as a practical program for immediate adoption. It is the plan most strongly supported in the New York Legislature and also in numerous other States, including Connecticut, New Jersey, Pennsylvania, Indiana, and Wisconsin.

A 3-percent tax on employers' pay rolls is proposed in the District of Columbia bill. This is not as severe a burden as is sometimes thought. A typical small employer, with 40 employees receiving an average weekly wage of \$25, would at the end of the week pay out \$1,000 to his workers; and at the same time his contribution to the unemployment reserve would be only \$30. Through the increased efficiency resulting from better feeling among the employees and more efficient methods suggested as a result of the new system of reserves, it will not be so difficult for a manager to absorb this modest contribution to the fund.

The District of Columbia bill recognizes that proper safeguarding of benefits in certain unstable industries, such as the building indus-

try, calls for a limited pooling of reserves. In addition, therefore, to voluntary pooling by groups of employers, such pooling is required when the administrative authority, after investigation and public hearing, finds that it is desirable in order to carry out the purposes of the act.

The New York bill introduced this year by Senator Mastick and Assemblyman Steingut, while following this plan of limited compulsory pooling by selected groups of employers, goes one step further. It provides as an added protection to the workers that one tenth of all employer contributions shall be set aside in a general fund to be used in paying supplemental benefits if prolonged unemployment should deplete the individual account of an especially hard-pressed employer. This new feature, while providing a wider distribution of the risk and additional security to the workers, does not invalidate the primary principle of the reserve plan, which puts the immediate load of responsibility directly upon the individual employer or industry and gives to efficient management opportunity to reduce its insurance costs by supplying steady employment to its own workers.

Mr. LEWIS. Thank you, Mr. Andrews.

(The memorandum on State bills on unemployment insurance referred to by Mr. Andrews is as follows:)

MEMORANDUM ON STATE BILLS, PREPARED BY AMERICAN ASSOCIATION FOR LABOR LEGISLATION

UNEMPLOYMENT INSURANCE BILLS INTRODUCED IN 1933

Compulsory unemployment reserves and insurance bills were introduced this year in 25 State legislatures—including all of the important industrial States—and in Congress. In seven States—California, Connecticut, Maryland, Minnesota, New York, Ohio, and Utah—such bills were passed through one house. In Maine, New Hampshire, North Carolina, and Oregon, investigating commissions were created.

In 16 States and in Congress legislation was proposed for the establishment of unemployment reserves, following in general "An American Plan" first suggested in 1930 by the American Association for Labor Legislation. There were bills of the establishment pool type in 12 of these 16 States and bills for industry pools in six; moreover, bills of both types were introduced in Congress. The Ohio and Socialist plans proposing a single State pool were likewise introduced in a total of 16 States. In several of the States bills of two or more of the above types were introduced, there being a total of 68 bills introduced, 8 of which were introduced by title only. Proponents of the establishment reserve plan consciously refrained from urging their bill in any State where there was strong representative support for the single State pool.

Wisconsin, which in 1932 enacted the pioneer law in America, is still the only State having this compulsory legislation. The Wisconsin act is of the establishment reserve type.

The following brief summary of the essential provisions of each of the compulsory unemployment insurance bills introduced shows: (1) The number of the bill, the name of its introducer and the date of introduction; (2) the maximum weekly benefit and maximum number of weeks of benefit payable in any year; (3) the initial noncompensated waiting period; (4) the contributors and the basic percentage of pay roll or wages contributed; and (5) the type of reserves set up, whether individual establishment pools in the State fund, industry pools in the State fund, or a single State pool. Administration is uniformly provided under State commission or labor department supervision, utilizing the facilities of the public employment offices for the desirable work tests and necessary information concerning opportunities for employment. In most bills, even the cost of administration is a charge upon the reserves, instead of being assessed upon the taxpayers through legislative appropriation.

COMPULSORY UNEMPLOYMENT INSURANCE BILLS, 1933

California.—A. 878. By Hornblower and Cronin, January 24. Passed assembly May 12. Benefit: \$12.50 weekly for 13 weeks. Waiting period: 2 weeks. Contributors: Employer, 1.54 percent; employees, 0.66 percent. Establishment pools.

A. 1216. By Sullivan, January 26. Benefit: \$10 weekly for 10 weeks, but not over 50 percent of wages. Waiting period: 2 weeks. Contributors: Employer, 1.5 percent; employees, 0.7 percent. Establishment pools.

A. 2233. By Meeker and Powers, January 28. Benefit: \$7 weekly for single person, \$10 for husband and wife, \$2 additional for each dependent, for 26 weeks. Waiting period: 7 days. Contributors: Employers, 2.5 percent; employees, 2.5 percent. Single State pool.

A. 932, by Fisher; and A. 1905, by Powers, were introduced by title only.

Colorado.—H. 351. By Vincent, January 18. Benefit: \$15 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 2 percent; employees, 1 percent. Single State pool.

H. 95 and H. 99, by Brownlow and Vincent; S. 118 and S. 124, by Hill; and S. 644, by Headlee and Knous, were introduced by title only.

Connecticut.—H.P. 4-5-1. By Connecticut Hunger March, January 4. Benefit: Average full wage until reemployed. No waiting period. Expenses met by taxes on high incomes and large property owners.

H. 791. By Mrs. Whitney, January 27. Benefit: \$10 weekly for 13 weeks. Waiting period: 3 weeks. Contributors: Employer, 2 percent. Establishment pools.

S. 245. By Bergin, January 25. Benefit: \$17.50 weekly for 26 weeks, but not over two thirds of wages. Waiting period: 2 weeks. Contributors: Employers, 3 percent; state, 1.5 percent. Industry pools.

S. 365. By Stremelau, January 26. Benefit: \$15 weekly for 40 weeks, but not over 50 percent of wages. Waiting period: 7 weeks. Contributors: Employers, 2.5 to 5 percent as fixed by commission. Single State pool. Passed Senate June 7.

Illinois.—H. 206. By Stack, January 25. Benefit: \$15 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 3 percent. Single State pool.

H. 422. By Fitzgerald, March 1. Benefit: \$16.75 weekly for 20 weeks. Waiting period: 3 weeks. Contributors: Employers, 3 percent; employees, 1.25 percent. Single State pool.

H. 455. By Libonati, March 7. Benefit: \$14 weekly for 12 weeks, but not over 50 percent of wages. Waiting period: 2 weeks. Contributors: Employer, 3 percent; employees, 1 percent. Establishment pools.

H. 878. By Insurance Committee, May 9. Benefit: \$15 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 2 percent; employees, 1 percent. Single State pool.

S. 292. By Graham, February 15. Same as H. 206.

Indiana.—H. 175. By Galloway, January 23. Benefit: \$12.50 weekly for 13 weeks. Waiting period: 3 weeks. Contributors: Employer, 2 percent. Establishment pools.

Iowa.—S. 421. By Reese, March 8. Benefit: 40 percent of wages for 40 weeks. Waiting period: 8 weeks. Contributors: Employers, 4 percent. Industry pools.

Maine.—H. 624. By Stern, January 31. Not printed; withdrawn February 2.

H. 1074. By Allison, February 7. Benefit: \$2 a day for 13 weeks, but not over two thirds of wages. Waiting period: 2 days. Contributors: Employers, 3 percent. Industry pools.

Maryland.—H. 8. By Hirt, January 17. Benefit: \$18 weekly, for 16 weeks, but not over 60 percent of wages. Waiting period: 1 week. Contributors: Employers, 2.2 percent. Single State pool.

H. 251. By Hofferbert, et al., February 22. Passed house March 23. Benefit: \$20 weekly for 20 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 2 percent; employees, 2 percent. Single State pool.

S. 23. By Altfold, January 24. Benefit: \$15 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 2 percent; employees, 1 percent. Single State pool.

Massachusetts.—H. 821. By Higgins, January 18. Benefit: \$10 weekly for 13 weeks, but not over 60 percent of wages. Waiting period: 2 weeks. Con-

tributors: Employers, 1.5 percent; employees, 1.5 percent; State, 1.5 percent. Industry pools.

H. 905. By Sawyer, January 19. Benefit: \$2 a day for 13 weeks, but not over two thirds of wages. Waiting period: 2 days. Contributors: Employers, 2 percent. Industry pools.

H. 1200. By Special Commission on the Stabilization of Employment, January. Benefit: \$10 weekly for 13 weeks, but not over 50 percent of wages. Waiting period: 4 weeks. Contributors: Employer, 2 percent. Establishment pools.

Michigan.—H. 502. By Buckley, April 24. Benefit: \$15 weekly for 20 weeks, but not over 50 percent of wages. Waiting period: 5 weeks. Contributors: Employer, 2 percent. Establishment pools.

S. 167. By Karwick, April 25. Benefit: \$15 weekly for 20 weeks, but not over 50 percent of wages. Waiting period: 5 weeks. Contributors: Employers, 2 percent; employees, 1 percent. Single State pool.

Minnesota.—H. 973. By Atwood, et al., February 15. Passed house in amended form, April 10. Benefit: 40 percent of wages for 40 weeks. Waiting period: 8 weeks. Contributors: Employers, 4 percent. Industry pools.

S. 800. By Devold, et al., February 10. Same as H. 973.

Missouri.—S. 162. By Kinney, February 6. Benefit: \$10 weekly for 10 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employer, 2 percent. Establishment pools.

New Hampshire.—H. 282. By Hunter, January 24. Benefit: \$10 weekly for 13 weeks, but not over 50 percent of wages. Waiting period: 4 weeks. Contributors: Employer, 2 percent. Establishment pools.

New Jersey.—A. 93. By Bradley, January 30. Same as S. 48.

A. 246. By McCampbell, February 27. Benefit: \$25 weekly until reemployed, but not over 70 percent of wages. Waiting period: 1 week. Contributors: Half of cost by employers and half by State. Single State pool.

S. 48. By Quinn, January 16. Benefit: \$15 a week for 13 weeks. Waiting period: 2 weeks. Contributors: Employer, 3 percent. Establishment pools.

New Mexico.—S. 166. By Tackett and Sedillo, February 21. Benefit: \$12.50 weekly for 13 weeks. Waiting period: 3 weeks. Contributors; Employer, 2 percent. Establishment pools.

New York.—A. 186. By Cohen, January 17. Benefit: two thirds of wages for 26 weeks. No waiting period. Contributors: Employers, rates to be fixed by commission to cover benefit costs. State fund: private mutual and stock companies authorized.

A. 533 (Pr. 2878). By Condon, January 25. Benefit: \$15 weekly for 16 weeks. Waiting period: 3 weeks. Contributors: Employer, 3 percent. Establishment pools.

A. 729. By Pack, January 31. Benefit: 40 percent of wages for 26 weeks. Waiting period: 1 week. Contributors: Employers, rates to be fixed by commission to cover benefit costs. State fund; private mutual and stock companies authorized.

A. 1322. By Cuvillier, February 16. Benefit: \$8 weekly for 15 weeks. Waiting period: 1 week. Contributors: Employers, one third of cost; employees, one third; State, one third. Single State pool.

A. 1428. By Samberg, February 21. Benefit: \$12.50 weekly for 10 weeks, but not over 50 percent of wages. Waiting period: 2 weeks. Contributors: Employer, 2 percent. Establishment pools.

A. 2137 (Pr. 2420). By Steingut, March 16. Benefit: \$15 weekly for 16 weeks but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employer, 3 percent. Establishment and industry pools.

A. 2225. By Bungard, March 23. Benefit: \$30 weekly until reemployed, but not over 60 percent of wages. Waiting period: 2 weeks. Contributors: Employers, 3 percent; State, 3 percent. Single State pool.

S. 1. By Feld, January 4. Same as A. 1428.

S. 30 (Pr. 1349). By Mastick, January 4. Benefit: \$15 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employer, 3 percent. Establishment and industry pools.

S. 203 (Pr. 2385). By Byrne, January 7. Passed senate April 8. Benefit: \$15 weekly for 16 weeks. Waiting period: 3 weeks. Contributors: Employer, 3 percent. Establishment and industry pools.

S. 1407. By Wald, March 6. Benefit: \$12.50 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 2 percent; employees, 1 percent. Single State pool.

S. 1982. By Wald, April 3. This is S. 1407 with amendments, but without changes in provisions summarized.

North Carolina.—S. 33. By Burgin, January 13. Benefit: \$15 weekly for 16 weeks, but not over 60 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 2 percent; employees, 1 percent. Single State pool.

Ohio.—H. 172. By Keifer, January 24. Passed house June 5. Benefit: \$15 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 2 percent; employees, 1 percent. Single State pool.

S. 46. By Harrison, January 18. Same as H. 172.

Oklahoma.—H. 646. By Graham, March 14. Benefit: \$10 weekly for 13 weeks, but not over 60 percent of wages. Waiting period: 2 weeks. Contributors: Employers, 1.5 percent. Industry pools.

Pennsylvania.—H. 52. By Hoopes, January 4. Benefit: \$25 weekly until reemployed, but not over 70 percent of wages. Waiting period: 1 week. Contributors: Employers, half of cost; State, half. Single State pool.

H. 1728. By Ruth, March 21. Benefit: \$12.50 weekly for 13 weeks. Waiting period: 3 weeks. Contributors: Employer, 2 percent. Establishment pools.

H. 1735. By Rhodes and Wade, March 21. Benefit: \$12.50 weekly for 13 weeks. Waiting period: 3 weeks. Contributors: Employer, 2 percent. Establishment pools.

Utah.—H. 14. By Adams, January 25. Passed house February 16. Benefit: \$14 weekly for 20 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employers, 3 percent. Single State pool.

Vermont.—S. 47. By Graves, February 23. Benefit: \$15 weekly until reemployed, but not over 70 percent of wages. Waiting period: 2 weeks. Contributors: Employers, half of cost; State, half. Single State pool.

Washington.—H. 55. By Palmeter, et al., January 17. Benefit: \$5 weekly, plus \$3 for one dependent, plus \$1.50 for each additional dependent, until reemployed. Waiting period: 2 weeks. Contributors: Employers, amount to be fixed by administrative board; employees to reimburse one fourth of employers' contributions. Single State pool.

West Virginia.—H. 443. By Harmon, February 28. Benefit: 25 percent of wages, plus 10 percent for wife, 5 percent for one child or 10 percent for two or more children, for 26 weeks. Waiting period: 1 week. Contributors: Employers, rate to be fixed to cover benefits. Single State pool.

H. 472. By Craig. Bill not printed.

Wisconsin.—A. 231. By Klefer, February 10. Benefit: \$25 weekly until reemployed, but not over 70 percent of wages. Waiting period: 1 week. Contributors: Employers, one half of cost; State, one half. Single State pool.

S. 82. By Polakowski, February 1. Same as A. 231.

Chapter 186. Laws of 1933, amends the Wisconsin unemployment reserves act of 1932, as follows: (1) Compulsory features of the act do not go into effect until after a finding of fact that factory employment in the State is 20 percent greater or factory pay rolls 50 percent greater than in December, 1932; but not before July 1, 1934 (instead of July 1, 1933). (2) Compulsory features are not to become effective if employers of 139,000 employees (instead of 175,000) adopt voluntary plans.

United States.—S. 5480 (72d Cong.). By Tydings, January 10. Benefit: Prevailing weekly wage until reemployed. Waiting period: 1 week. Contributors: Employers, cost of benefits. Industry pools.

S. 1943 (73d Cong.). By Wagner, June 12. Applies to District of Columbia. Benefit: \$15 weekly for 16 weeks, but not over 50 percent of wages. Waiting period: 3 weeks. Contributors: Employer, 3 percent. Establishment and industry pools.

S.J.Res. 26 (73d Cong.). By Wagner, March 13. Amends revenue act to allow employers contributing to unemployment reserve funds to deduct 30 percent of such contributions from Federal income tax; and also exempts unemployment reserve trusts from income tax.

H.R. 4887 (73d Cong.). By Dunn, April 11. Benefit: 50 percent of wages, plus 10 percent for dependent wife and 5 percent for one child or 10 percent for two or more children, but not less than \$12 for worker with wife and one child, and never more than \$25, for duration of unemployment. Waiting period: 1 week. Contributors: Federal Government, one half of cost; employers, one half. Single national pool.

H.R. 5271 (73d Cong.). By Lewis, April 26. Benefit: prevailing weekly wage for duration of unemployment. Waiting period: 1 week. Contributors: Employers, rate to be fixed to cover benefits. Industry funds.

Resolutions memorialising Congress to enact unemployment insurance legislation were introduced during 1933 in Maine, Montana, Minnesota, and Wisconsin. Bills to provide for the Federal encouragement of State unemployment compensation legislation have been before Congress since December 1930, when Senator Wagner introduced a bill (S. 5350, 71st Cong.) to amend the Federal income tax law so as to allow employers to deduct from gross income contributions made to unemployment reserve funds. In January 1931 Senator Wagner introduced a second bill (S. 5634, 71st Cong.) authorizing an appropriation of \$100,000,000 to be apportioned among the States in proportion to their wage earners, the portion of any one State not to exceed one third of the amounts provided for unemployment reserves by State, municipal, and private contributions. Following the report of the special Senate Committee on Unemployment Insurance, of which he was a member, Senator Wagner in March 1933 introduced a bill (S.J.Res. 26, 72d Cong.) which would permit an employer contributing to an unemployment reserve fund to deduct an amount equal to 30 percent of such contributions from his Federal income tax.

STATE UNEMPLOYMENT INSURANCE BILLS, 1934

Massachusetts:

- H. 496. By Lewis, January 12.
- H. 705. By Higgins, January 16.
- H. 964. By Sheldon, January 18. (Memorial to Congress.)
- H. 1082. By Thore, January 18. (Commission "to create a law.")
- H. 1083. By Thore, January 18.
- H. 1116. By Barry, January 19.
- H. 1187. By Downey, January 19.
- H. 1301. By Special Commission on Stabilization of Employment, January 29

New Jersey:

- A. 285. By Schoen, February 19.
- S. 234. By Richards, March 19.

New York:

- A. 263. By Cohen, January 23.
- A. 414. By Steingut, January 29.
- A. 655. By Pack, February 6.
- A. 826. By Condon, February 9.
- A. 1241. By Ehrlich, February 27.
- A. 1361. By Berley, March 1.
- S. 353. By Mastick, January 29.
- S. 630. By Byrne, February 9.
- S. 1184. By Hanley, March 8.

Rhode Island:

- H. 614. By Wrenn, January 31. (Study commission.)
- H. 887. By Wrenn, March 14.

United States (73d Cong.):

- H.R. 4887. By Dunn, April 11, 1933. (First session.)
- H.R. 5271. By Lewis, April 26, 1933.
- H.R. 6467. By Cannon, January 5, 1934. (Second session.)
- H.R. 7598. By Lundeen, February 2, 1934.
- H.R. 7659. By Lewis, February 5, 1934.
- S. 2616. By Wagner, February 5, 1934.

OFFICIAL INVESTIGATIONS

Eight States have had official commission reports upon unemployment compensation: California, Connecticut, Massachusetts, New York, Ohio, Pennsylvania, Virginia, and Wisconsin.

Three additional official commissions have made reports on unemployment compensation: A governor's interstate commission, the United States Senate committee, and a Baltimore municipal commission.

Seven States have official investigations authorized or in process: Colorado, Illinois, Louisiana, Maine, New Hampshire, North Carolina, and Oregon.

Two commissions, in Massachusetts and Virginia, have this year recommended unemployment compensation legislation.

THE WAGNER UNEMPLOYMENT RESERVE BILL (S. 1943) INTRODUCED JUNE 12
1933, FOR THE DISTRICT OF COLUMBIA

PUBLIC POLICY DECLARATION

SECTION 1. As a guide to the interpretation and application of this act, the public policy of the District of Columbia is declared to be as follows:

Economic insecurity due to unemployment is a serious menace to the health, welfare, and morals of the people of the District of Columbia. Involuntary unemployment is therefore a subject of general interest and concern which requires appropriate action by Congress to prevent its spread and to lighten its burden which now so often falls with crushing force upon the unemployed worker and his family. Congress therefore declares that in its considered judgment the public good and the well-being of the wage earners of the District require the enactment of this measure for the compulsory setting aside of financial reserves for the benefit of persons unemployed through no fault of their own.

SHORT TITLE

SEC. 2. This act shall be known and may be cited as the "District of Columbia Unemployment Reserve Law."

DEFINITIONS

SEC. 3. Whenever used in this act—

- (1) "Secretary" means Secretary of Labor.
- (2) "Department" means Department of Labor.
- (3) "Employment", except where the context shows otherwise, means any employment in the District of Columbia under any contract of hire, express or implied, oral or written, including all contracts entered into by helpers and assistants of employees, whether paid by employer or employee, if employed with the knowledge actual or constructive of the employer; except that for the purposes of this act an employment shall not include:
 - (a) Employment as a farm laborer; or
 - (b) Employment not in the usual course of trade, business, or occupation carried on by the employer for pecuniary gain, or in connection therewith.
- (c) Employment of a member of the immediate family of the employer.
- (4) "Employee" means any person employed by an employer in any employment subject to this act, except persons employed at a rate of remuneration of \$2,000 a year, or more, at other than manual labor, but does not include persons directly employed by the United States or the District of Columbia and persons engaged in the operation of any means of interstate transportation except suburban electrical railways and motor vehicles.
- (5) "Employer", except when otherwise expressly stated, means a person, partnership, association, corporation, and the legal representatives of a deceased employer, or the receiver or trustee of a person, partnership, association, or corporation employing four or more persons.
- (6) "Fund" means the unemployment reserve fund created by this act.
- (7) "Employer's account" means the separate unemployment reserve account of an employer with the fund.
- (8) "Reserve per employee" shall refer to the status of an employer's account as determined by the Secretary at the beginning of an accounting period. It shall be calculated by dividing the net amount of such employer's account by the maximum number of employees subject to this act employed by such employer in any week during the preceding accounting period.
- (9) "Benefit" means the money allowance payable to an employee as provided in this act.
- (10) "Wages" includes the money received for service rendered and the reasonable value of board, rent, housing, lodging, or similar advantage received from the employer.
- (11) "Average weekly wage" shall be computed by averaging the wages received during at least 3 full weeks of employment within the 12-month period preceding the claim for benefit. In case there are no such full weeks of employment, the 3 weeks which most closely approximate full weeks of employment shall be taken for the purpose of computing such average.
- (12) "A week of employment" means any calendar week in which the employee has performed at least 1 full day's work or its equivalent for an employer.

EXCLUDED INDUSTRIES

SEC. 4. This act does not apply to any seasonal industry in which it is customary to work not more than 17 weeks in 12 months. The Secretary shall by order establish whether any employment is seasonal after a hearing at which opportunity to be heard shall be given to employers in such industry, or their representatives, and the employees or their representatives of such employers.

LIABILITY FOR PAYMENT OF BENEFITS

SEC. 5. (1) Benefits shall be paid to each unemployed employee entitled thereto from his employer's account in the fund, except that exempted employers shall pay benefits directly to their unemployed employees under the plan approved by the Secretary as the basis for the exemption.

(2) Benefits shall become payable 1 year from the date on which the employer's contributions become payable under this act, except as a shorter period may be provided in the case of exempted employers.

(3) An employer's account shall be liable to pay benefits to employees in the ratio of 1 week of benefit to each 3 weeks of employment of such employee by such employer within the preceding 52 weeks, but in no case shall such account be liable for more than 16 weeks' payment of benefits in any 12 months to any one employee.

(4) In no case shall an employer's account be liable to pay benefits to an employee for any unemployment occurring more than 12 months after the date on which such employee last performed services for such employer.

(5) When the condition of any employer's or pooled account is such that it is unable to pay the benefits provided in this act, the Secretary may reduce the amount of benefit payable from such account to an amount which will assure equitable treatment of persons entitled to benefits from such account.

AMOUNT OF BENEFITS

SEC. 6. (1) An employee shall be entitled to benefits on account of unemployment which continues subsequent to a waiting period of 3 weeks after notification of unemployment: *Provided*, That not more than 3 weeks of unemployment for which no benefit is paid shall be required as a waiting period within any 13 consecutive calendar weeks (except as otherwise provided under section 8, subsection 2). No week of unemployment shall count as a waiting period in any case except weeks of unemployment as to which notification of unemployment has been given.

(2) Benefits shall be payable at a rate as provided herein but not to exceed:

(a) Fifteen dollars a week; or
(b) Fifty percent of the employee's average weekly wage, whichever is the lower.

(3) Benefits shall be paid to each employee for the weeks during which he is unemployed and eligible for benefits; but no employee shall receive in any 12 months more than 16 weeks of benefit.

(4) When an employee is employed by more than one employer within any 12-month period, the payment of benefits due such employee shall be made from the successive employer's accounts in inverse order to such successive employments. Until the last employer liable shall have met or been unable further to meet his benefit liability to an eligible employee no previous employer shall be due to pay benefits to such employee.

ELIGIBILITY FOR BENEFITS

SEC. 7. (1) Benefits shall be paid to an employee only:

(a) If he has been employed by one or more employers in the District for not less than 13 weeks during the preceding 52 weeks;

(b) While he is available for employment and unable to obtain employment in his usual employment or another for which he is reasonably fitted.

(2) No employee shall be required to accept employment:

(a) In a situation vacant in consequence of a stoppage of work due to a trade dispute;

(b) If the wages, hours, and conditions offered be not those prevailing for similar work in the place of employment or are such as tend to depress wages or working conditions;

(c) If acceptance of such employment would abridge or limit the right of the employee either:

- (A) To refrain from joining a labor organization or association of workmen; or
- (B) To retain membership in and observe the rules of any such organization or association.

LIMITATION ON PAYMENT OF BENEFIT

SEC. 8. (1) An employee shall not be entitled to benefits:

(a) While he is receiving compensation under the workmen's compensation law; or

(b) Unless he has given notice of his employment as required by this act, or unless the obligation to give notice has been dispensed with; or

(c) If he has left or lost his employment due to a trade dispute involving the employer by whom he was employed, so long as such trade dispute continues; or

(d) If he has refused a job offered him in a trade or occupation for which he is reasonably fitted.

(2) An employee shall not be entitled to benefits except for unemployment which continues subsequent to a waiting period of 10 weeks if he has lost his employment through misconduct, or if he has left employment voluntarily without reasonable cause.

BREAK IN UNEMPLOYMENT

SEC. 9. (1) Employment at any work for which provision of benefits is not required, shall suspend the right to benefits. If the employee becomes unemployed after 3 months or more of such employment, his right to benefits shall recommence upon notification of unemployment and the running of the waiting period. If he becomes unemployed within 3 months of his acceptance of such employment, his right to benefits shall recommence upon notification of unemployment.

(2) If an employee undertakes such employment during the 3-weeks waiting period, it shall not affect the running of such period if it continues for 6 days or less.

(3) The employee shall inform the employment office at which he has given notice of unemployment when he begins and leaves such employment.

NOTIFICATION

SEC. 10. An employee shall give notice of his unemployment either in the District employment office or in the employment office established under this act by trade associations or by organizations of employers and employees under collective agreements, for the industry in which he is usually or was last employed, or as otherwise designated by the Secretary.

PROOF OF RIGHT

SEC. 11. The employee shall prove his right to benefits and the continuance of such right in such manner as may be provided by the rules and regulations prescribed by the Secretary.

JURISDICTION CONTINUOUS

SEC. 12. Jurisdiction over benefits shall be continuous. Benefits paid to any individual shall be modified whenever necessary to make the amount correspond to the amount determined by the Secretary, in accordance with subsection 5 of section 5.

PAYMENT OF BENEFITS

SEC. 13. (1) Claims for benefits, except from exempted employers, shall be filed with the officer of the employment office at which notice of the unemployment has been given. Claims shall be filed within such time and in such manner as the Secretary shall by regulation prescribe, but such regulation shall provide for a notice to the employer or employers whose accounts may be affected and for a hearing at the request of the employer or employee. Benefits shall be paid at such periods and in such manner as the Secretary shall prescribe.

(2) (a) If the employer or any group of employers or any association or organization, approved under section 27, upon request by the employee, fails to pay or to continue to pay the benefit due, the employee may file a claim for benefit with the officer in charge of the employment office at which he has given notice of his unemployment. The claim must be filed within 1 month of the default in payment.

(b) If such officer believes the claim correct, or if incorrect, as soon as it has been corrected, he shall notify in writing within 5 days such employer or group of employers or the governing board of any association or organization, approved under section 27, of the claim and that he or it may contest the claim by filing within 5 working days after receipt of notice, a denial of the claim in such form as the Secretary may provide; and such denial shall operate as an application for a hearing before such officer.

(c) If the claim appears to such officer to be invalid or improperly made, he shall, within 3 days, notify such employer, and shall also notify the employee of this and of his right to make an application for a hearing before the officer which must be made within 5 working days. Such notifications and applications shall be in such form as the Secretary may prescribe.

(d) The officer shall hold a hearing when applied for, and after a hearing, or in case no hearing is applied for, without hearing, shall make an order fixing benefits and notify the claimant, his last employer, and the Secretary.

(e) Under (b), (c), and (d) of this subsection the Secretary may designate an umpire to act in place of the officer in charge of the employment office.

APPEAL BOARD

SEC. 14. There shall be an appeal board, consisting of 3 members designated by the Secretary for 2-year terms, 1 of whom shall be an umpire, who shall be chairman, 1 of whom shall be an employer or a representative of employers, and 1 of whom shall be an employee or a representative of employees. The members of the appeal board shall receive a per diem compensation for the days actually spent in the work of the board, to be fixed by the Secretary.

APPEALS

SEC. 15. (1) An appeal may be taken from a decision of the officer by any party affected within 30 days after the decision has been made by filing a notice of appeal with the officer, who shall mail a copy of such notice to the other party or parties and shall send to the appeal board a copy of the notice and of his decision. The appeal board shall fix a time for hearing and shall notify all parties. Upon a hearing the officer may be heard, and any party may present evidence and be represented by an agent. No fees shall be allowed any agent of an employer or employee in any proceeding under section 13 and under this section.

(2) The parties shall be notified of the decision of the appeal board, which shall be rendered not more than 30 days after the hearing.

FINAL DECISION ON FACTS

SEC. 16. A decision by the officer, if not appealed from, and a decision of the appeal board shall be final on all questions of fact and unless appealed from on all questions of law.

TECHNICAL RULES OF EVIDENCE OR PROCEDURE NOT REQUIRED

SEC. 17. The officer or board conducting a hearing shall not be bound by common law or statutory rules of evidence or by technical or formal rules of procedure, except as provided by this act, but may conduct such hearing in such manner as to ascertain the substantial rights of the parties.

QUESTIONS OF LAW TO COURT

SEC. 18. Within 30 days after notice of the filing of the award or the decision of the appeal board has been sent to the parties an appeal may be taken to the Supreme Court of the District of Columbia from such award or decision by the employee, by the employer, or by the group of employers or by the governing board of any association or organization approved under section 27. The appeal board may also, in its discretion, certify to such supreme court questions of law involved in its decision. Such appeals and the questions so certified shall be heard in a summary manner and shall have precedence over all other civil cases in such court, except cases arising under the workmen's compensation law. In case a question is certified by the appeal board the attorney of the United States for the District, without extra compensation, shall represent the appeal board. An appeal may also be taken to the Court of Appeals of the District of Columbia in all cases where the decision of the supreme court is not unanimous and by the consent of the supreme court or the court of appeals where the decision of the

supreme court is unanimous. It shall not be necessary to file exceptions to the rulings of the appeal board. No bond shall be required to be filed upon an appeal to the Court of Appeals of the District of Columbia. Otherwise such appeals shall be subject to the law and practice applicable to appeals in civil actions. Upon final determination of such an appeal the appeal board shall enter an order in accordance therewith.

WAIVER AGREEMENT VOID

SEC. 19. No agreement by an employee to waive his rights under this act shall be valid.

ASSIGNMENT OF BENEFITS—EXEMPTION

SEC. 20. Benefits due under this act shall not be assigned, released, or commuted and shall be exempt from all claims of creditors and from levy, execution, and attachment or other remedy for recovery or collection of a debt, which exemption may not be waived.

UNEMPLOYMENT RESERVE FUND

SEC. 21. (1) There is hereby created a fund to be known as "the unemployment reserve fund." Such fund shall consist of all contributions received and paid into the fund, of property and securities acquired by and through the use of moneys belonging to the fund and of interest earned upon moneys belonging to the fund and deposited or invested. Such fund shall be applicable to the payment of benefits and shall be administered by the Secretary.

(2) A separate account shall be kept by the Secretary with each employer contributing to said fund, and this separate employer's account shall not be merged with any other account except as provided in subsection 3 or 4 of this section.

(3) Whenever two or more employers in the same industry desire to pool their several accounts with the fund, they may file with the Secretary a written application to merge their several accounts in a pooled account with the fund. The Secretary may approve such a pooled account provided that the several employers each accept such suitable rules and regulations not inconsistent with the provisions of this act as may be drawn up by the Secretary for the conduct and dissolution of such pooled accounts.

(4) (a) Whenever it appears to the satisfaction of the Secretary that the assurance of the safety of the funds and the carrying out of the purposes of this act require a wider base than the individual account, he shall by order require the pooling of contributions of the employers in any industry and may make the necessary regulations to secure such pooling.

(b) Before making such order the Secretary shall hold a hearing at which an opportunity to be heard shall be afforded to any employer, or representative of employers, and the employees of any employer, or representative of employees, who may be affected by such order. A public notice of such hearing shall be given in such manner as may be fixed by the Secretary. Such notice shall be made at least 1 month before the hearing is held.

(c) All the employers in any pool shall be treated as a single employer for the purposes of contribution or of fixing rights to benefits, and the employees of all the employers in such pool shall be treated for the purposes of benefits as if they were the employees of a single employer.

PAYMENT OF CONTRIBUTIONS

SEC. 22. (1) On and after the 1st day of July 1934 contributions shall be payable by each employer then subject to this act. Contributions shall become payable by any other employer on and after the date on which he becomes subject to this act.

(2) All contributions from employers shall be paid at such times and in such manner as the Secretary may prescribe.

CONTRIBUTIONS TO THE UNEMPLOYMENT RESERVE FUND

SEC. 23. (1) The contribution regularly payable by each employer shall be an amount equal to 3 percent of the pay roll of the employees for whom he is liable to pay benefits under this act. During an employer's first 2 years of contribution, he shall make contributions to the fund at the rate of 3 percent of his pay roll, and thereafter shall make such payments during any accounting period at the beginning of which his account amounts to less than \$65 reserve per employee.

(2) If the employer has been continuously subject to this act during the 2 preceding years, the rate of contributions may be reduced or suspended by the Secretary under the following conditions:

(a) Whenever at the beginning of an accounting period, the employer's account amounts to \$65 but less than \$100 reserve per employee, such employer shall pay contributions to the fund at the rate of 1 percent of his pay roll during the continuance of such period.

(b) Whenever at the beginning of an accounting period the employer's account has a reserve per employee of \$100 or more, no contributions to the unemployment reserve fund shall be required of such employer during the continuance of such period.

AGREEMENT TO CONTRIBUTIONS BY EMPLOYEES VOID

Sec. 24. No agreement by an employee to pay any portion of the payment made by his employer for the purpose of providing benefits required by this act, either through the fund or otherwise, shall be valid and no employer shall make a deduction for such purpose from the wages or salary of any employee.

EMPLOYEES' VOLUNTARY CONTRIBUTIONS

Sec. 25. Employees individually or collectively may make voluntary arrangements with their employers or with groups of employers for the payment of contributions to increase the benefits paid them over the benefits provided by this act, and may authorize the deduction from their wages of such contribution. With the consent of the Secretary and of the employer, or of employer members of a pool, by whom any employee or group of employees is employed, such arrangement may provide for the payment of such contributions into the fund and for their distribution in the same manner and under the same conditions as are benefits under this act, and for other necessary conditions.

ADMINISTRATION

Sec. 26. (1) This act shall be administered by the Secretary of Labor, and for such purpose the Secretary shall have power to make all rules and regulations and to appoint such officers and employees as may be necessary in the administration of this act.

(2) The Secretary shall fix the accounting periods.

(3) The Secretary shall establish an advisory council composed of persons representing employers and employees in equal numbers and the public, which shall consider and advise him concerning policies and methods connected with the administration of this act. Members of such council shall be selected from time to time in such manner as the Secretary shall prescribe and shall serve without compensation. The advisory council shall have access to all files and records connected with the administration of this act and may recommend such changes in policies and methods as it deems necessary.

(4) The Secretary may establish and maintain as many employment offices as he deems necessary to carry out the provisions of this act.

(5) It shall be one of the purposes of this act to promote the regularization of employment in the District. The Secretary shall take such steps as are within his means for the reduction and prevention of unemployment. To this end, the Secretary may employ experts and may carry on and publish the results of any investigations and research which he deems relevant, whether or not directly related to the other purposes and specific provisions of this act.

EXEMPTED EMPLOYERS

Sec. 27. (1) The Secretary may exempt from the provisions of this act requiring contributions to the unemployment reserve fund any employer or group of employers submitting a plan for unemployment benefits, whether the plan is submitted by an individual employer or by a group, or for an industry, by a trade association of which the employer is a member or by an employers' organization and an organization of employees, acting under a collective agreement, provided that the Secretary finds that such plan:

(a) Makes eligible for benefits at least the employees who would otherwise be eligible under this act and at least to the same amount;

(b) Provides that the proportion of the benefits to be financed by the employer or employers will on the whole be equal to or greater than the benefits which would otherwise be provided; and

(c) Is on the whole as beneficial in all other respects to such employees as the plan otherwise provided in this act.

(2) If under such a plan any contributions are made by employees, the accounts of the plan shall be so kept as to make clear what proportion of the benefits is financed by the employer or employers, and what proportion by the employees. If under such a plan any contributions are made by employees, the Secretary shall require that such employees be represented, by representatives of their own choosing, in the direct administration of such plan, and the Secretary may take any steps necessary and appropriate to assure such representation to contributing employees.

(3) As a condition of granting exemption, the Secretary may require the employer or group or trade association or organization to furnish such security as the Secretary may deem sufficient to assure payment of all promised benefits or wages, including the setting-up of proper reserves. Such reserves and other security and also the manner in which an exempted employer carries out his promises of benefits shall be subject to inspection and investigation by the Secretary at any reasonable time. If the Secretary shall deem it necessary he may require an exempted employer or group or trade association or organization to furnish additional security to assure fulfillment of his promises to his employees.

(4) If an exempted employer or group or association or organization fails to furnish security satisfactory to the Secretary, or fails to fulfill the promises made to employees, or willfully fails to furnish any reports that the Secretary may require under this act or otherwise to comply with the applicable portions of this act and the rules, regulations, and orders of the Secretary pertaining to the administration thereof, the Secretary may, upon 10 days' notice and the opportunity to be heard, revoke the exemption of such employer, group, association, or organization. In such case or in case any exempted employer, group, association, or organization voluntarily terminates exemption, such employer or each of such group or association or organization shall at once pay into the fund an amount equal to the balance which would have been standing to his account had he been making contributions to the fund and paying out the benefits provided in this act: *Provided*, That in any case where such balance cannot reasonably and definitely be determined, the Secretary may require such employer to meet his liability under the present subsection by paying into the fund a lump-sum amount equal to the contributions he would, if not exempted, have paid into the fund during the 12 months preceding the termination of his exemption. The account of any employer whose exemption has been terminated shall thenceforth be liable to pay to his employees the benefits which may remain or thereafter become due them, as if such employer had not been exempted under this section; and such employer shall thenceforth pay all contributions regularly required under this act from nonexempted employees.

(5) Such plans shall provide that upon the going out of business in the District by any employer, or the legal abandonment of the plan, the fund which shall have been contributed under such plan shall be retained for a sufficient period to meet all liability for benefits which may thereafter accrue, and that at the end of such period the proportion then remaining of employer contributions shall be paid to the employer or his assigns, and the proportion then remaining of employee contributions shall be distributed in such equitable manner as the Secretary may approve.

(6) The rules and regulations for the government of such plan must be submitted to and approved by the Secretary. The Secretary may, on the petition of any interested party, or on his own motion, and after public hearing, modify any such plan.

INDUSTRY EMPLOYMENT OFFICES

Sec. 28. (1) Any trade association for any industry, or any organization of employers and an organization of employees acting under a collective agreement, with a plan for administering its own benefits approved by the Secretary may, with the approval of the Secretary, establish an employment office to serve the industry, with such branches as it may think desirable. The expense of such office shall be a charge upon the unemployment fund of such association or organization. The governing board appointed in accordance with rules and regulations approved by the Secretary shall appoint and fix the remuneration of the officers and employees of such employment office, and shall, with the approval of the Secretary, make rules and regulations for its operation. The Secretary may at any time investigate the conduct of any employment office so maintained.

(2) There shall be an advisory committee of five members for each such office; two members shall be appointed by the employers of the industry, and two members shall be appointed by the employees of the industry in such manner as the Secretary may provide by regulation, and one shall be appointed by the Secretary. The advisory committee shall meet at least every 3 months and shall be consulted on the policy and operation of the office.

TREASURER OF THE DISTRICT OF COLUMBIA CUSTODIAN OF FUND

SEC. 29. The treasurer of the District of Columbia shall be the custodian of the fund, and all disbursements therefrom shall be paid by him upon vouchers signed by the treasurer or assistant treasurer. The treasurer shall give a separate and additional bond in an amount to be fixed by the auditor of the District of Columbia and with sureties approved by such auditor conditioned for the faithful performance of his duty as custodian of the fund. The treasurer may deposit any portion of the fund not needed for immediate use in the manner and subject to all the provisions of law respecting the deposit of other District funds by him. Interest earned by such portion of the fund deposited by the treasurer shall be collected by him and placed to the credit of the fund, and shall be allocated annually to the separate account of each employer or pooled account in the proportion which such account on June 30 in each year bears to the whole fund.

INVESTMENT OF SURPLUS

SEC. 30. Any of the surplus funds belonging to the fund may, by order of the Secretary, be invested in any obligations of the United States of America and of the District of Columbia. All such securities or evidences of indebtedness shall be placed in the hands of the treasurer of the District of Columbia, who shall be custodian thereof. He shall collect the principal and interest thereof, when due, and pay the same into the fund. The treasurer of the District of Columbia shall pay all vouchers drawn on the fund for the making of such investments when signed by the Secretary, or other officer or employee of the Department duly authorized by the Secretary, upon delivery of such securities or evidence of indebtedness to him. The Secretary may sell any of such securities.

RECORD AND AUDIT OF PAY ROLLS

SEC. 31. Every employer shall keep a true and accurate record of the number of his employees and the wages paid by him, and shall furnish to the Secretary, upon demand, a sworn statement of the same. Such record shall be open to inspection at any time and as often as may be necessary to verify the number of employees and the amount of the pay roll. Any employer who shall fail to keep such record or who shall wilfully falsify any such record shall be guilty of a misdemeanor.

COLLECTION OF CONTRIBUTIONS IN CASE OF DEFAULT

SEC. 32. If an employer shall default in any payments required to be made by him to the fund, after due notice, the amount due from him with interest at 6 percent from the date when due, shall be collected by civil action against him brought in the name of the Secretary, and the same when collected shall be paid into the fund, and such employer's compliance with the provisions of this act requiring payments to be made to the fund shall date from the time of the payment of said money so collected.

BANKRUPTCY

SEC. 33. In the event of bankruptcy or insolvency of an employer the amount due for contribution to the fund shall be a prior claim and shall be entitled to such priority in bankruptcy, as is provided by section 64, subsection b, subsection 7, of the Federal Bankruptcy Act.

DISCLOSURES PROHIBITED

SEC. 34. Information acquired from employers or employees pursuant to this act shall not be open to public inspection and any officer or employee of the Department who, without authority of the Secretary or pursuant to his regulations, or as otherwise required by law, shall disclose the same shall be guilty of a misdemeanor.

EXPENSES OF ADMINISTRATION

SEC. 35. (1) The Secretary and the auditor of the District of Columbia annually as soon as practicable after July 1 shall ascertain the total amount of expenses incurred by the Department during the preceding fiscal year in connection with the administration of this act and shall add thereto one half of the total expenses of maintaining the public employment offices as established for the purposes of this act. An itemized statement of the total expenses so ascertained shall be open to public inspection in the office of the Secretary for 30 days after notice published as the Secretary shall provide before the Secretary shall make an assessment as hereinafter provided. The Secretary shall assess upon the fund and upon the exempted employers such total amount of expenses in the proportion that the total benefits paid from the fund or benefits paid by any exempted employer in such year bears to the total of benefits paid in such year. The Secretary shall apportion the share of such expense borne by the fund among the employers' accounts in the proportion which the benefits paid by or on behalf of each employer's account bear to the total benefits paid from the fund.

(2) No employer shall be assessed under this section in any fiscal year more than an amount equal to three tenths of 1 percent of the total wages paid by him to his employees during the year in which the assessed expenses were incurred by the Department.

EXPENSES OF HEARINGS

SEC. 36. Fees of witnesses and other expenses, except legal services, involved in hearings and appeals under this act shall be paid at the same rate as similar expenses are paid in hearings under the act entitled "An act to provide compensation for disability or death resulting from injury to employees in certain employments in the District of Columbia, and for other purposes", approved May 17, 1928, and shall be treated as expenses under this act.

STUDY OF PARTIAL UNEMPLOYMENT

SEC. 37. The Secretary shall appoint a committee of not more than three persons who shall make a study of partial unemployment, and shall make recommendations to the Secretary in respect to provision for the inclusion of benefits for partial unemployment in this act. The Secretary shall transmit the report and recommendations of the committee, with his comments thereon and recommendations to Congress not later than the 1st of February 1934.

PENALTIES

SEC. 38. (1) Any person who willfully makes a false statement or representation:

(a) To obtain any benefit or payment under the provisions of this act, either for himself or for any other person; or

(b) To lower contributions paid to the fund; or

(2) Any person who willfully refuses or fails to pay a contribution to the fund; or

(3) Any person or corporation who refuses to allow the Secretary or his authorized representative to inspect his pay roll or other records or documents relative to the enforcement of this act; or

(4) Any employer who shall make a deduction from the wages or salary of any employee to pay any portion of the contribution which the employer is required to make shall be guilty of a misdemeanor. If a corporation is convicted of any such violation, its president, secretary, treasurer, or officers exercising corresponding functions shall each be guilty of a misdemeanor.

(5) Any employer who fails to pay his contributions to the fund promptly and when due shall be liable for interest at the rate of 6 percent from the time due until the time of payment.

SEPARABILITY OF PROVISIONS

SEC. 39. If any provision of this act or the application thereof to any person or circumstance is held invalid, the remainder of the act and the application of such provision to other persons or circumstances shall not be affected thereby.

APPROPRIATION

SEC. 40. The sum of ——— dollars, or so much thereof as may be necessary, is authorized to be appropriated and paid for the purposes of carrying out the provisions of this act in like manner as other appropriations for the expenses of the government of the District of Columbia.

EFFECTIVE DATE

SEC. 41. This act shall take effect immediately.

(H.R. 5232)

A bill to give effect to the right to work was introduced in the House April 25, 1933 by David J. Lewis of Maryland as a substitute for the Black 30-hour-week bill as it passed the Senate.

The bill includes the Swope plan, which proposed securities for the workers embracing unemployment insurance, old age insurance, health and life insurance, accident insurance, and stabilization of industry.

The industries covered include manufacturing, mining, transportation, building construction, electrical communication, the distribution of gas, petroleum, and the printing trades.

In commenting on his measure Mr. Lewis said:

"In order to effectuate these benefits Mr. Swope proposed the establishment of national trade associations for each industry, each to be managed by a board of 9 persons—3 employers, 3 employees, and 3 representatives of the public. The insurance funds are to be maintained by equal contributions from the employers and employees. These insurance features required such national trade associations, Mr. Swope thought, so that workers might transfer from one employer to another without losing their benefits. This proposal was specifically approved by the United States Chamber of Commerce.

"The Swope objectives serve the worker who is on the payroll, who has a job. But how about the jobless, the 'men at the gate'? They, too, have rights. Certainly the world does not owe a man a living—but just as certainly it does owe him a chance to make a living."

The bill makes provision for these jobless. The worker may apply for work in his trade to the workmen's accident commission of his state, and if it finds him competent, it notifies the trade association, which is then placed under a legal duty to give him his share of the work available or pay him the wages it refuses him a chance to earn. The association may refuse to pay for a reasonable period if the worker had been discharged for trade misconduct.

To enforce the act an excise tax of 1 percent is imposed on the gross income of corporations employing 25 or more persons, with a drawback of 99 percent to those complying with the act.

No new offices are created by the bill. Its administration is entrusted to the trade associations and the existing state workmen's accident commissions, with an appellate jurisdiction when necessary in the Federal Trade Commission.

In his statement Mr. Lewis asks:

"Which shall it be? Shall the worker be given his share of the work, or shall he be given a dole? We cannot continue to deny him both."

The trade associations complying with the act are exempted from the Sherman anti-trust law if they do not fix prices.

ANALYSIS OF RIGHT-TO-WORK BILL (H.R. 5232)

Section 1: (a) Declaration legalizing citizen's right to work and on proof of competency to share of the employment available in his trade; which if denied, compensation payable from the trade in lieu thereof.

(b) Competent worker, unemployed, may apply to workmen's accident compensation commission of State for employment in his trade, which notifies trade association, which may contest his competency and record. If these be good, commission orders trade association to employ or place him.

Boards of national trade associations to submit rules for determining competency; also disciplinary regulations in relation to discharge, suspension, or demotion for neglect or occupational misconduct.

Incompetency shall not be imputed to worker on account of age unless he has reached pensionable age, nor on account of a physical defect if he can in fact do the work involved.

(c) If trade association refuses or fails to place worker in 1 week after certificate by commission, it may be sued by worker for compensation before such workmen's accident compensation commission, which, if case proved, shall order trade association to pay the worker compensation, to continue until worker is employed. Compensation to be governed by the wages prevailing in the State.

(d) Each trade association required to establish compensation fund.

(e) Secretary trade association to make monthly reports to Federal Trade Commission showing pending compensation claims and state of fund. Monthly excise tax sufficient to pay such claims is levied upon corporation members of association to be assessed by Federal Trade Commission based on number of employees.

(f) Workmen's accident compensation commissions of States to have plenary jurisdiction to enforce the act, from which same appeals may be taken to same courts as in workmen's accident compensation cases.

Section 2: The act shall apply—

(a) To corporations employing not less than 25 persons engaged in (1) manufacturing, (2) mining, (3) transportation, (4) electrical communication, (5) building construction, (6) distribution of gas and petroleum products, and electrical energy, (7) printing industries.

(c) Such industries to be classified by the Federal Trade Commission into trade associations according to products or services suitable to carry out the act.

Section 4: (a) Temporary initial board members to be designated by the Federal Trade Commission:

(1) Three members on behalf of the public from persons affiliated with organizations of consumers of the product or service.

(2) Three employees from unions or workmen in the trade.

(3) Three employers from the corporations engaged in the trade.

(b) Terms of office shall be staggered so that of first appointments one third of each set of members shall serve 1 year, 2 years, and 3 years, respectively.

(c) Meetings of the boards: (1) To organize and adopt bylaws.

(d) Permanent members of the board to be elected according to system prescribed by the Federal Trade Commission.

(e) Corporations to continue payment of wages to employee members while on association business.

Section 5: (a) Plans for stabilization of industry and employment shall be prepared by the national trade associations:

(1) Equitable partition of available work among competent workmen.

(2) Life, disability, and health insurance for employees.

(3) Workmen's accident compensation.

(4) Workmen's old-age pensions.

(5) Workmen's unemployment insurance.

(6) Stabilization of production.

Operation by—

(1) Trade association under its rules and regulations as approved by Federal Trade Commission.

(2) Boards in each corporation representing management and employees.

(3) Administration expenses shall be paid by members of trade association in proportion to number of employees.

METHOD OF ENFORCEMENT OF THE ACT

To effect enforcement of the act an excise tax of 1 percent on their gross income is imposed on corporations liable. A drawback of 99 percent of this tax is allowed those which become members of the trade associations if they comply with their duties under the act.

STATEMENT OF GERARD SWOPE, PRESIDENT OF THE GENERAL ELECTRIC CO., NEW YORK CITY

Mr. LEWIS. Mr. Swope, we will be glad to hear from you at this time. For the purpose of the record, will you please describe your relation to this bill and to the industries of the country?

Mr. SWOPE. I am president of the General Electric Co., and my interest in unemployment insurance goes back a good many years, and in my statement I refer to that. So, with your permission I have a short prepared statement which I would like to read, and then be subject to any cross examination later. In compliance with the request of your chairman, I appear before you. Your chairman knows that I am in entire sympathy with unemployment insurance, and, if it is possible, to have it Nation-wide.

May I say at the outset, that unemployment insurance, even at best, can only ameliorate the difficult conditions in which workers find themselves when unemployment comes. The first, basic, constructive thing to do, wherever possible, is to assure employment. Assurance is difficult, at all events at present, except where merchandising can be made up for stock which is not subject to rapid obsolescence or rapid changes in design and fashion. Such a case is the manufacture of incandescent lamps. In this department of the General Electric Co., for 3 years now we have had employment assurance. That was inaugurated on January 1, 1931, and during the 3 difficult years it has been in effect the employees who were given assurance of employment have received over \$10,000,000 in wages.

In this plan for 1934, the company guarantees at least 62 percent of the normal maximum hours of work as provided under the code. In order that the employees may have a better understanding and a more direct interest in the plan, if they wish to have the benefits of this assurance they are required to put aside 1 percent of their earnings in a trust fund. If they leave the company, their savings are returned to them, with interest at 5 percent; if they die, the accumulated fund goes to their families, and if they retire on pension it is added to their retirement allowance. In this 3-year period, over \$107,000, including interest, has been accumulated for the employees. I will file for your record a statement of the principles of the guarantee of employment assurance.

Therefore, in cases where the employer guarantees at least 50 percent of normal hours work at normal wages, no payment into an unemployment fund is necessary.

Mr. LEWIS. Is that the number of hours you guarantee now?

Mr. SWORE. No, we guarantee 62 percent of the number of hours.

Mr. LEWIS. Sixty-two percent?

Mr. SWORE. We do in our company, but I am saying generally if an employer guarantees at least 50 percent of normal work at normal wages you do not need any unemployment insurance under any form that I know of until the man is working less than half time, and he gets benefits equal to not more than half time and also not more than a certain maximum.

Mr. LEWIS. But your company goes beyond that and guarantees on its own initiative 62 percent of the normal working hours?

Mr. SWORE. For a year.

Mr. LEWIS. For a full year?

Mr. SWORE. Yes; for the entire year 1934 there is guaranteed 62 percent of their normal year's income. If we were ever to lay them off for lack of work we would have to stand it.

From the standpoint of the employee, it is, of course, much better, because he can look ahead with assurance to not less than 62 percent employment in the coming year.

The problem of unemployment insurance is being studied by commissions in several States. Only one State, Wisconsin, as yet has passed a law and this law has not yet gone into effect. The Wisconsin law puts the burden of unemployment insurance entirely upon the employer to the extent of providing a fund of 2 percent of the pay roll, with the funds kept separate for each employer in the State.

The Ohio commission has recommended a law placing the burden one third upon the employees and two thirds upon the employer,

with the funds pooled in the State. Other commissions have reported in different ways and some are still studying the problem.

The diversity of opinion in the various States may mean some States will have no plan whatsoever and others will have plans differing in many respects and therefore differing in the burdens they place upon employees and employers, making comparison of wage rates difficult and making competition unfair between employers located in different States. Therefore, it would be desirable if Federal legislation can make the burdens upon employees and employers in the various States more uniform.

This is, however, a large, difficult and complicated question extending over the business and industry of the United States and therefore requires more study especially from a national standpoint, than I think has as yet been given to it, and I suggest before the enactment of legislation along the line of that here proposed, desirable as its objective may be, that your committee continue its study further. Education and leadership for the employers, for the employees and the members of State legislatures on this large and complicated problem is also highly desirable, and your committee, through the publicity given to its studies and its findings, would be a great factor in crystallizing such work along proper lines.

The bill now before you proposes a tax of 5 percent on the pay roll of any company, including in the pay roll all those receiving less than \$3,000 per year. In the Wisconsin Act, employees affected are those receiving less than \$1,500 per year and there the tax is 2 percent. The tax collected by the United States from Wisconsin employers would be, approximately four times as much as the burden imposed by the State, and the difference would be retained by the Federal Government. As proposed in the bill, the Federal Government assumes no obligations for greater benefits to employees, or otherwise for the income it thus receives. That four times has been worked out from our total pay roll of \$55,000,000, comparing what it would be under the Wisconsin Act and under the proposed Federal legislation. It may not be exactly four times the amount, it may be more or less, but I just wanted to give you an approximation of what that meant, the difference between your bill with a 5 percent tax and the Wisconsin law with a 2 percent tax, and in this bill including everybody on the pay roll receiving less than \$3,000 a year and theirs in Wisconsin which includes only those under \$1,500 a year.

Furthermore, rather than encouraging, it penalizes any company, to the extent of 5 percent of its pay roll, which voluntarily puts unemployment insurance into effect in a State where no unemployment insurance law exists, because there the company must pay the Federal tax in addition to the cost of its voluntary unemployment insurance. We have voluntary unemployment insurance in the General Electric Co., and we have had it now for almost 4 years. Under this proposal if in any particular State no unemployment insurance law is passed, we will have to pay into our own fund, and then we will have to pay 5 percent in addition to the Federal Government.

Mr. Lewis. That means your policy, in the human interest of the company in those States would lead you to carry on your voluntary system under any circumstances?

Mr. Swore. It would be very difficult, Mr. Chairman. We are doing it in New York, and if New York passes a law and if we also

have a factory in Indiana, Ohio, or Pennsylvania and they did not pass a law, we would not want to differentiate between our people in Indiana, Ohio, and Pennsylvania and those in New York, simply because the State legislature has not seen fit to pass the legislation. We would want to treat our people the same, but then the burden comes back on the employer. In Massachusetts they recognize voluntary unemployment insurance which satisfies certain requirements either of your bill or of the State.

Minimum standards of benefits provided in this bill are very modest. In fact, I think they are too low and are less than those provided in the Wisconsin Act. It must be remembered if the minimum is set too low many States may comply with only the minimum while others will exceed such minimum, which again makes the burden upon the employees and employers differ in various States.

Voluntary plans which would comply with the reports of some of the State commissions, would not be subject to approval under this bill. The bill calls for a short probationary period, which is stated as 10 weeks, and this might seriously interfere with purely seasonal occupations. In most of the measures they run from 26 weeks to 1 year of employment by a company before they are eligible for these benefits.

Mr. LEWIS. Would that mean under these measures if a young man out of high school, say at the age of 18, did not succeed in getting himself a job, a primary basic job, he never could come under the benefits of the system?

Mr. SWOPE. No; with our company if he works for us one year continuously he is eligible, and in Massachusetts if you work there, as I remember it, for a period of 26 weeks you are eligible.

Mr. LEWIS. I have not made myself clear. There is a qualification required that the applicant for unemployment benefits must show previous employment for a certain number of weeks, is that your statement?

Mr. SWOPE. That is right.

Mr. LEWIS. In the case of a young lady or a young man coming out of high school, if they do not succeed in getting employment at any time, they never could come under the unemployment benefit system?

Mr. SWOPE. You have to be employed first, before you are unemployed.

Mr. LEWIS. Does anyone know whether that condition applies under the British system?

Mr. SWOPE. I think so. In your bill you have a period of 10 weeks. There is another point, in a number of States where you have seasonal industries, like the canning industry, where you have seasonal occupation.

Mr. COOPER. The canning industry, did you say?

Mr. SWOPE. Yes; and where they only work for a few months.

The funds collected from each employer should be kept separate in each State, so as to encourage employers to reduce the irregularity of employment and unemployment as much as possible. If the funds are put into a pool, no more encouragement is given to those industries which are in position to do better than is given to industries where the difficulties or irregularity of employment are much greater. For instance, we can make lamps in the summer and store them for use in the winter, but you cannot do that with heavy

machinery, and therefore you do have variations in employment. In some industries it is a more serious problem than in others, and if you pool all contributions then, of course, the best industries are penalized by the worst, and that does not seem to me to bring about the results you are after.

Requirements should be made that all such funds contributed should be deposited in the nearest Federal Reserve bank, with the provision that at the end of the year interest will be credited on the average balances at the average rate of interest paid by the United States Government during such year. This would make the funds much more liquid and available in times of need, and with a minimum risk of impairment of principal. The difficulty now is if you invest the funds in either county, State, or municipal bonds, in times of depression when you want to realize on them it may be the very time it is most difficult to realize on them, and from a general fiscal policy it might be an undesirable thing to have to sell them then. This would avoid that, because then it would go into United States Government coffers, and they could then invest in bonds or use it as they thought best. In other words, they control that fiscal operation.

I think that the soundest basis for unemployment insurance is contributory, so as to invoke the interest of the employees. Especially is this true in the administration of any plan and the disbursements of the benefits. The employees are in a much better position to be the distributing agents for the funds than either the employer or the State. The members of the administration committee for each company might be elected half by the employees and half by the management.

Emergencies have arisen and will arise where the needs will transcend the amount of funds that have been collected, and some special provision should be made therefor. That was true, even with the English, which were based on actuarial calculations, and they had to supplement that. When such an emergency arises, the rules governing the normal benefits under the plan should be made less rigid, and the benefits extended to the unemployed, if necessary, placed on the basis of need.

That they are discussing in England now. Before relief or assistance is asked from the State or the Federal Government, the employees not normally eligible for benefits in each particular organization, who are working half time or more, should contribute a small percentage, say 1 percent, of such earnings to the fund and the company for whom they are working should contribute an equal amount. If the emergency is so severe that even the funds so collected are inadequate, then relief must be sought from the State or Federal Government.

If a plan of contributions is adopted similar to that recommended by the Ohio commission, of 1 percent from the employees and 2 percent from the employer, the Federal Government might participate in the following way: Each employer might deduct from his Federal income tax one half the amount he has paid into the fund. The result of this would be that one third of the burden would be carried by the employee, one third by the employer, and one third by the Federal Government. This would result in something similar to the English plan.

Mr. LEWIS. Suppose the case of an employer who paid no income tax.

Mr. SWOPE. There should be a provision in the law that this should be deducted from the next Federal tax. Of course, if the company is not going to make any profit for some years, it just increases their loss, unfortunately, and you might take that into consideration. Mr. Chairman, may I say that your tax here does that too, because you are going to ask companies who are making money and who are losing money to pay this 5-percent tax on pay roll. So that there would be no difference in that respect.

In 1925 an unemployment insurance plan was first proposed to the employees in the apparatus works of the General Electric Co., that is about 75,000. At that time people generally and our workmen did not think an unemployment insurance plan was necessary. In 1930 the plan was again submitted to our workers and was adopted by an overwhelming vote at all of the works. It was entirely voluntary. The results have been highly satisfactory. Since the plan's adoption in June 1930 normal contributions, half by the employees and half by the company, with interest, amounted to almost \$400,000, and is retained in a trust fund. The emergency provisions of the plan went into effect December 1, 1930. From that date to March 1, 1934, \$4,877,000 was contributed. Of this amount, and I want you to get these figures, because it seems to me these are very significant, of this total amount of almost \$5,000,000, approximately \$1,160,000 was contributed by the people who are eligible to benefits, and \$1,151,000 from other employees who are not eligible, and \$2,311,000 from the company. \$3,561,000 has been disbursed, leaving an unexpended balance of \$1,316,000 in the unemployment emergency fund on March 1, 1934. The plan is still functioning. I submit a copy of our plan for your consideration.

(The General Electric Co. stabilization of employment plan for the year 1934 is as follows:)

1. To all employees of the incandescent lamp department who are compensated on the basis of hourly or piecework rates, and who have been in the employ of the department continuously for a period of not less than 2 years prior to January 1, 1934, the General Electric Co. will guarantee 62 percent of the normal maximum hours of labor prescribed for process and nonprocess labor, respectively, under the code of the National Electrical Manufacturers Association, or any other code under which any division or department of the incandescent lamp department may operate, which period will include any vacation with pay for the year beginning January 1, 1934, and ending December 31, 1934. From this guarantee will be deducted time lost through illness of the employees or through plague, fire, flood, strike, repair or replacement of equipment, or other extreme emergency.

This guarantee is subject to the following terms and conditions:

2. Participation under this guarantee is optional, and will become effective upon receipt by the company before December 31, 1933, of the signed individual application of eligible employees, requesting the company to deduct 1 percent of their weekly earnings and credit the amount so deducted to these employees. The conditions and method of repayment of such fund, plus interest guaranteed at 5 percent, will be similar to that outlined in paragraphs 6, 7, and 8 of the Additional Pension Plan of the Company.

3. The company may transfer any employee to work other than that at which he or she is regularly employed, and the employee shall receive the wage rate prevailing for the work to which he or she is transferred, but for not less than the minimum hours guaranteed herein.

4. The company may terminate permanently, in whole or in part, any department, factory, division, activity, or job, or may supplant hand operations with machinery, and may terminate the employment of some or all of the employees previously employed therein, without obligation to make payments under this guarantee, but such termination of work or employment shall only be made with notice to the employee.

5. This guarantee of employment does not effect or waive the company's right of discharge in individual cases.

6. This guarantee expires on December 31, 1934, but it is hoped that in the light of the year's experience the company may be able to announce a renewal of the guarantee, or the adoption of some alternative plan.

7. This plan is subject to such modifications affecting the hours of employment as may be required to comply with legislation or with the stipulations of codes of fair competition, established under the National Recovery Act, which affect the hours of employment of labor.

Mr. LEWIS. Now, gentlemen, here is a line of information of which the committee will wish to avail itself by way of questions, Mr. Cochran.

Mr. COCHRAN. Mr. Swope, I have no intention of getting into a political discussion, but I want to propound this question with the underlying assumption of new deal labor activities that the interest of the employer and the employee are diametrically opposed, and can only be handled on a legalistic and essentially autocratic basis. Have you found this to be the fact in your organization, or has it been the policy of the General Electric Co. that the employer and the employee have common interests which can only be worked out by complete cooperation between the employer and the employee?

Mr. SWOPE. Of course, I could talk at some length on that, Mr. Cochran. I am in favor of a good many things the N.R.A. has done, but speaking of the last question first, I believe, essentially, that the interests of the employer and the employee are similar. We must cooperate if we are going to get the best results. You cannot have, it seems to me, a militant relationship between those two, a spirit of antagonism. We are working for a common purpose, which is to produce merchandise for the people of this country of good quality and low cost so as to have prices low so that they can be distributed to the widest circle of buyers. All of the plans that we have put into effect such as this have been by vote of our employees, the employment assurance plan has not been obligatory of acceptance. When we put in our contributory-pension plan that was also by vote of the employees, and the same is true of our life insurance plan, that is also contributory on the part of the employees. In other words, we have tried to work together all along the line, and in every department. In each works we have a body that speak for our men, with whom we meet from time to time at their request, and discuss all these questions such as hours of work, wages, and conditions of work. I do not know that I have made my answer full enough.

Mr. COCHRAN. In view of your statement, if you care to answer further, I would like to ask relative to any labor troubles that the General Electric Co. has?

Mr. SWOPE. Well, fortunately, speaking only for the moment, because I do not know what the next moment will bring, we have had no labor trouble for 15 years. Of course, today there is a great deal of labor unrest. I mean by that people do not know what is coming. It is not because they are dissatisfied with the particular conditions, except that they might feel that they are not receiving everything that they might receive under other conditions. There is so much in the air that it is difficult to forecast. We have had no difficulty as yet, but how long that will go on, or to what extent, I cannot tell you.

Mr. COCHRAN. The reason I referred to labor troubles within your organization was that I felt the policies pursued by your company would reduce labor disturbances to a minimum.

Mr. SWOPE. All of these things I have spoken of and to which you refer would not take the place of hours and wages. Of course, under the code we must conduct our plant in accordance with the code, and we must also have not less than certain minimum rates and try to see that our rates for our people are not less than the market rates.

Mr. COCHRAN. Less than the market rates?

Mr. SWOPE. No; not less than the market rates, or less than the code rates, whichever govern.

Mr. COOPER. I would like to ask one question for the purpose of getting your views, which I respect very much, and that is relative to the desirability of the placing of this provision, that is, this act into effect at this time. What is your view as to the ability of industry to take on this additional 5 percent tax at this time?

Mr. SWOPE. I think 5 percent is a fearfully high tax. I asked some people where they got the idea of 5 percent, and I understood it was just the beginning, that it was easier to come down than to go up. Of course, you could not impose a 5 percent tax without increasing your prices, and, of course, if all industry is subject to it, then it would affect our material, and if you keep your rates of profit and loss just the same your prices would have to go up approximately 5 percent, and that, of course, would increase the buyer's resistance, and decrease your consumer demand. People might be willing to pay 5 cents for an article but they would not be willing to pay more than that for it. The tendency has been, and the direction in which we have been working has been to increase, first, the purchasing power and secondly to give to the consumer just as much for the dollar's purchasing power as we could, and this works against it for the moment.

Mr. COOPER. It is my understanding that this bill imposes a 5 percent excise tax on the pay rolls of industry?

Mr. SWOPE. That is right.

Mr. COOPER. I was anxious to get your views as to whether you think under conditions as they now exist in industry, whether industry could stand that kind of a tax at this time?

Mr. SWOPE. I do not know how much industry can stand, but I think it is a tremendously high tax, and I do not conceive that the bill would go through with a 5 percent tax, because, as I have tried to show, it is much higher than any tax yet even considered by any State unemployment insurance plan. It is much more than you need.

Mr. COOPER. Do you think the imposition of a 5 percent tax on the pay rolls of industry would retard recovery?

Mr. SWOPE. Yes; certainly. It would either increase the losses of your industry or increase the selling price of your articles or both, both of which are against the public interest.

Mr. COOPER. Of course, the 5 percent tax has to go somewhere.

Mr. SWOPE. Of course.

Mr. COOPER. It either has to come out of industry or be passed on to the consumer.

Mr. SWOPE. Of course.

Mr. COOPER. It is your thought, then, that such a tax at this time would retard the recovery of industry?

Mr. SWOPE. Yes, sir.

Mr. COOPER. And the improvement of economic conditions?

Mr. SWOPE: I go further than that. As I tried to indicate in my statement, I think 5 percent is too high even if industry could stand it, because it is not necessary for the purpose you are trying to accomplish.

Mr. COOPER. What would be your thought, Mr. Swope, as to the proper amount of this excise tax?

Mr. SWOPE. Well, not more than 2 percent.

Mr. COOPER. Two per cent?

Mr. SWOPE. Yes; that is what they contemplate in Ohio, and that is what is contemplated in Massachusetts; and in New York, as I remember it, it is $1\frac{1}{4}$ percent, and in Wisconsin it is 2 percent, and then, as I said, you could have the employees contribute. I heartily believe in the contribution of the employer, the employee, and the State. I think contribution of one third by the employer, one third by the employee, and one third by the Government would be very good.

Mr. COOPER. Your preference then, would be a 3-way voluntary cooperative plan?

Mr. SWOPE. Yes, sir.

Mr. COOPER. That is, the employers, the employees, and the Government cooperating in a 3-way voluntary plan?

Mr. SWOPE. Yes, sir, and, you see, too, under that three-way plan it would take nothing at all from the Government. It would mean the Government would get less in particular years, but it would not take anything out of the coffers of the Government.

Mr. COOPER. Would you be prepared to give us some estimate as to the probable yield of a 2 percent excise tax on the basis contemplated in this bill?

Mr. SWOPE. To the United States?

Mr. COOPER. In other words, what would be your estimate as to the approximate yield if the excise tax was at the rate of 2 percent rather than at the rate of 5 percent as provided in this bill?

Mr. SWOPE. No; I am not able to estimate that.

Mr. COOPER. As I now recall the Secretary of Labor gave us an estimate that the 5-percent excise tax would yield substantially \$1,000,000,000 a year.

Mr. SWOPE. Yes. Then, of course, 2 percent would be 40 percent of that.

Mr. COOPER. If that estimate is accurate, it would be a matter of calculation as to what 2 percent would yield.

Mr. SWOPE. I should think that is low, just as a rough guess.

Mr. COOPER. You think so?

Mr. SWOPE. Yes; however, the Secretary is in a much better position to know than I am.

Mr. COOPER. So far as your industry is concerned, or your company, your plan is operated purely on a voluntary basis?

Mr. SWOPE. Yes, sir; it has been now, I should say, almost 4 years. I do not know if you understand what I mean by "voluntary." Its inception was voluntary. It was by vote. Of course, its continuing is not voluntary either on the part of the company or the employees. As long as the plan continues we have to go on with it.

Mr. COOPER. All employees have to participate if they retain employment with the company?

Mr. SWOPE. Yes, sir.

Mr. COOPER. But it was initiated on a voluntary basis?

Mr. SWOPE. Yes, sir.

Mr. COOPER. Then, since it has been put into effect, all people who remain in the employment of your business have to participate in it?

Mr. SWOPE. No, not all of them, those only who are eligible for benefits.

Mr. COOPER. I see.

Mr. SWOPE. And the company contributes an equal amount.

Mr. LEWIS. Congressman West.

Mr. WEST. Mr. Swope, I was interested in what you said about the burden of the 5 percent of the pay roll of the industry. Do you think that burden would be reflected in the increased price that the industry would have to secure for its products? Wouldn't it be only, perhaps, a moderate part of that inasmuch as labor costs really only constitute a part of the cost of industrial operations?

Mr. SWOPE. I am assuming that this applies to all industries, and if that is true, that will effect all material that is bought.

Mr. WEST. That is what I want to find out, just how you justify it?

Mr. SWOPE. If you assume that you put this into effect nationally, then that will affect copper, pig iron, and all of the products we use, cotton, and everything else. I mean fabricated cotton. All of our labor will be affected, both the direct labor and the indirect labor, and what we call indirect supervision will be affected as soon as it comes in under the provisions. It would not be quite 5 percent, because our fixed charges would not go up, but it would be between 4 and 5 percent increase. You will either have to add the increased cost on the ultimate price of the product or it will have to come out of the industry.

Mr. WEST. Could industry's profits bear that much of a burden?

Mr. SWOPE. Not today.

Mr. WEST. Of course, not today, but assuming conditions become more normal through our expected business improvement, and it is anticipated that this as a permanent plan would operate on the basis of what we expect to be a more normal condition in industry, could industry's profit bear the burden of writing this percentage into a reserve for the protection of the worker against unemployment?

Mr. SWOPE. That is going to vary with almost every industry, depending upon its profits. I have made some calculations on that. For instance, for the year 1929, 5 percent of the pay roll of the General Electric Co. would have amounted to \$6,000,000. The Wisconsin bill only contemplated \$1,800,000 for unemployment insurance. It is very much in excess of what we really need, the job you are trying to do, and it is much in excess of what we have ever contributed in these years we have worked under it.

Mr. WEST. With a more normal period of business you feel a reserve fund could be built up with a smaller percentage that would adequately cover anticipated unemployment?

Mr. SWOPE. Yes, sir.

Mr. WEST. To clarify the thought along this line, we have, I think, from the National Industrial Conference Board authority for the statement that in the period of 5 years immediately preceding 1929 the volume of wages increased 13 percent; industrial profits generally increased 72 percent, whereas corporation dividends increased 265 percent.

Now, according to their analysis of that situation industrial profits and dividend increases went into industrial expansion and production increase in that period. Ordinarily you would expect a shortage of labor, a greater demand for labor, but the fact is that there was a decline in the demand for labor during that same period when we have an increase in production. So that there was an increase in production and a decrease in the demand for labor. In the year 1928 when industrial profits increased \$7,000,000,000, there was a decrease of \$60,000,000 in the total volume of wages, and during that period there was a relatively stable price level. My thought is, Would it be possible through an agency of this character to divert into an assurance fund against unemployment a part of this percentage that has gone into larger industrial profits into building up of protection against unemployment? Does that seem to you to be a reasonable justification for this program?

Mr. SWOPE. Of course, it will depend entirely on how it affects varying industries, and that seems to me to be an important part of the study you have to undertake. You do not want to destroy industry, and all industries cannot stand a uniform burden, and, of course, our problems are different, and that is one of the great difficulties you have confronting you in computing a percentage to cover all kinds of industry in the different States.

Mr. WEST. There is an element of elasticity there that should be a part of the program?

Mr. SWOPE. Yes, sir.

Mr. WEST. Of course, I have been impressed by this analysis of the report of the National Industrial Conference Board and have had a conviction that perhaps the tendency either could be somewhat reversed, or, at least, modified, and that a part of the large percentage that has gone into industrial profits and into industrial expansion could be turned toward building up of the volume of wages and the safeguarding of the wage earner.

Mr. SWOPE. I think so. Had we been able to put our plan into effect in 1925 we would have had a much larger reserve in 1930. You cannot do that before you are ready for it. Our people said there is not going to be any unemployment, and we do not want to give up any small percentage of our wage, and they did not do it. Five years later they were willing to do it. Your opportunity now is to consider this question or study this legislation so that as conditions improve, which we all look forward to, why, then, you can build up that reserve for the next rainy day.

Mr. COOPER. I would like to ask one more question, please, Mr. Swope. Just what was the statement you made with reference to the Federal Reserve bank in connection with this fund?

Mr. SWOPE. That has been one of the problems that has been discussed, as to what we are going to do with those contributions that accumulate in large amount, to hundreds of millions of dollars. The thought has been to put them into county, State, Federal, and municipal bonds. Then when unemployment comes, in order to realize on those bonds, you will have to sell them, and, of course, market conditions then may not be very propitious for the sale of those securities. My suggestion is the money should be put into the Federal Reserve banks, not invested by us or the State, and the Federal Reserve banks should allow interest on that money at the

average rate of interest which the United States Government is paying on their securities during that year, and then the Federal Reserve banks in accordance with the policy of the Federal Reserve Board shall invest in Government bonds or whatever they wish to invest in, just depending upon the broad fiscal policy of the Government, and it becomes a matter then of Government control, and you do not disturb the market from a forced sale of the securities.

Mr. COOPER. Then, is it your understanding that under the provisions of this plan embraced in this bill that the funds collected through the imposition of this 5 percent tax, or whatever the percentage of the excise tax may be, that this fund would be held by the Government as a reservoir to be used in case an emergency arose?

Mr. SWOPE. Yes.

Mr. COOPER. As it was necessary to pay unemployment benefits?

Mr. SWOPE. Yes. Of course, that is not now provided in the bill.

Mr. COOPER. Yes.

Mr. SWOPE. I would go further and say that the States must put their funds into the Federal Reserve banks.

Mr. COOPER. It is your thought that that provision should be included in the bill?

Mr. SWOPE. Yes.

Mr. COOPER. That this fund should be accumulated and should be held in reserve and used for this particular purpose?

Mr. SWOPE. Yes, sir.

Mr. COOPER. That these funds should not go into the general Treasury?

Mr. SWOPE. No, sir.

Mr. COOPER. Of the United States?

Mr. SWOPE. No, sir.

Mr. COOPER. Now, I got the impression from the Secretary of Labor that the plan was that this money should be collected and go into the general Treasury of the United States, and the thought naturally arose in my mind that if the money is there in the general funds of the United States and Congress sees fit to appropriate it, why, then, when the emergency does come we might be in the same situation we are in now.

Mr. SWOPE. Yes, sir; but if you have it ear-marked at least you have that much to begin with. I would go further, too, that any State law that the Federal Government would approve must have its funds put into a Federal Reserve Bank in the district in which they are operating.

Mr. COOPER. I also understood from the Secretary of Labor that there was some doubt as to whether funds of this kind could legally be ear-marked. Are you prepared to give some information on that?

Mr. SWOPE. No.

Mr. LEWIS. I believe Mr. Swope and the Secretary of Labor were thinking about different situations. The Secretary of Labor was thinking about a tax collected that was not taken advantage of by the State having provided insurance scheme, that would go into the Treasury. I think Mr. Swope is addressing himself to the question of reserves to be built up in the State under State systems.

Mr. COOPER. I got the impression from Mr. Swope that it was Federal Reserve, and it was not State reserves.

Mr. SWOPE. If you are going to impose this tax as a means of putting more money into the Treasury of the United States, that is one thing, and if you are doing it for unemployment insurance I think it ought to be kept for that purpose. My point is both the Federal funds in excess of that collected by the States and the State funds should go into Federal Reserve banks.

Mr. COCHRAN. Mr. Swope, this bill provides that the plan of unemployment insurance shall become effective July 1, 1935. In view of that fact, do you think that the resolution should be enacted now, or would its present enactment tend to retard recovery? Should we do more at the present than encourage a careful study of it?

Mr. SWOPE. That is what I think. I do not think we are ready for Federal legislation. I do not think we know enough about it yet. Necessarily even among the different State governments that are studying it, the proposed laws are not uniform. There is the greatest disparity between the probationary periods, the waiting period, and the periods during which benefits are paid, and whether the fund should be pooled or not. Those things are the very substance of the bill. Those are the important points. So, therefore, my thought is I think your committee can give leadership and direction to this study by conducting it. It is a big problem and a complicated one for industry in America. We are coming out of this depression, but before we get into another period of slump we should have unemployment insurance set up under the leadership and direction of the Federal Government, but I do not think it is essential to be done at this session.

Mr. COCHRAN. Do you think the enactment of it at this time would tend to retard recovery?

Mr. SWOPE. I think it would surely if you have a 5-percent tax. I think it would retard recovery in two ways.

Mr. COCHRAN. As to a 2-percent tax, can industry face the exaction of this tax now, even though it does not become effective until July 1, 1935?

Mr. SWOPE. It would make the loss of industry greater, but I would not say they could not stand it. We can stand a good deal. I think you ought to give a longer period of convalescence before putting this burden onto industry.

Mr. WEST. There would not be objection to preparation for such appropriation now, perhaps taking effect later?

Mr. SWOPE. Yes; I believe in preparation.

Mr. WEST. Because the opportunity for some adequate remedial legislation of this character is greater now than it might be 2 or 3 years hence, assuming that we will have improved business conditions. After all, largely, the building up of a reserve fund rests upon the assumption that we build up this fund during a period of employment, of good business conditions, so as to anticipate an unemployment period later. If we allow this thing to go on into another period of prosperity there will be no preparation for it then.

Mr. SWOPE. I think you ought to go ahead with your preparation. Of course, my remarks are directed against this particular bill, this 5 percent tax on pay rolls of all those receiving less than \$3,000 per year, to go into effect at a certain time. I do not think industry is ready for it.

Mr. WEST. Building up a reserve fund now during a period of extreme depression would be very unwise?

Mr. SWOPE. Yes.

Mr. LEWIS. I have a number of questions. How many people does the General Electric Co. employ?

Mr. SWOPE. Today?

Mr. LEWIS. Yes. Rough figures are sufficient.

Mr. SWOPE. Between 40,000 and 50,000.

Mr. LEWIS. How many did it employ in 1928 and 1929?

Mr. SWOPE. Between 75,000 and 80,000.

Mr. LEWIS. The 35,000 not now employed by the company are hardly receiving these benefits provided?

Mr. SWOPE. Not all of them; no, sir. Many of them drifted away into other industries and are not now on the pay roll of the company, and many of them are not receiving benefits. That \$3,600,000 has gone to people whom we expect to call back into the industry as soon as we can find work for them.

Mr. LEWIS. In the social protection situation which you have set up so admirably, you do provide old-age pensions?

Mr. SWOPE. Yes, sir.

Mr. LEWIS. And sickness insurance?

Mr. SWOPE. We do not, but the employees do; yes, sir.

Mr. LEWIS. That is, they have built a fund of their own for that purpose?

Mr. SWOPE. Yes, sir.

Mr. LEWIS. How about life insurance?

Mr. SWOPE. We have that. Both the company and the employees contribute to that.

Mr. LEWIS. But the sickness insurance represents contributions by the employees only?

Mr. SWOPE. Yes, sir, and, of course, in sickness and accident due to the occupation that comes under the Workmen's Compensation Act, and that we bear entirely.

Mr. LEWIS. You also make provision for disability?

Mr. SWOPE. Yes, sir.

Mr. LEWIS. If the accident compensation law in the State concludes with 3 years' benefit and 14 years' benefit for disability, the company carries on that same disability?

Mr. SWOPE. Not only the company; this is a contributory plan, to which the employees contribute themselves. If it is life disability, it goes on for life.

Mr. LEWIS. Then, in addition to these measures, you have this unemployment fund?

Mr. SWOPE. Yes.

Mr. LEWIS. That means, then, that the General Electric Co.'s plan of protection embraces all of the elements embraced by the German or the British systems, all of their objectives?

Mr. SWOPE. Yes, sir.

Mr. LEWIS. You have gone through, did I understand, an experience of stabilization or regularization of your employment?

Mr. SWOPE. In a certain department, in the incandescent lamp department.

Mr. LEWIS. Can you remember the figures well enough to tell us whether that has meant reducing the number of employees employed at any particular time? Let me make it concrete. A company has work 6 months during the year at a seasonal trade. It

employed 500 men for 6 months. Conceivably it could regularize or stabilize its industry by working 12 months a year, and employing 250 men, but from the point of view of the lawmaker that would be working an injury rather than a benefit on the whole. Two hundred and fifty employees would be off all the time. What has the experience of your regularization plan been in that regard?

Mr. SWOPE. You might say our regularization plan meant nothing. That is to say, we had this long before, but the employees did not know it. Now, we tell him in advance, we give him a year's assurance of 62 percent of employment. We never told him that before. That is the only difference. We have not cut down at all.

Mr. LEWIS. No disturbance to your employment was involved?

Mr. SWOPE. We had a condition of regularized work, but the only difference is now we tell them, and guarantee that we will take care of them to that extent.

Mr. LEWIS. I know how profoundly and sincerely you have thought about this whole subject, because I am familiar with the literature you have given the country. Do you know of any particular addition which might be made to this treatment of this bill, for example, that would improve the spread of employment, so that instead of when the market demand falls off, and continues to fall off, going from 6 days to 4 days, 6 men would be given 4 days' employment instead of 4 men being given 6 days a week by dropping one third of the employees? Have you thought of an amendment to this bill that would improve the spread of employment for that purpose?

Mr. SWOPE. I should think you would not want it in this bill. You have it in the National Industrial Recovery Act, and that is exactly what we are trying to do now in industry. A good example of that is in the textile industry where under the limitations of the code they have 80 machine hours per week. That is two shifts of 40 hours each a week. In December when that industry saw that their goods were piling up faster than they were selling them they reduced that to 60 machine hours per week, and therefore ran at 75 percent, therefore spreading the work, if I understand what you mean.

Mr. LEWIS. Yes, sir.

Mr. SWOPE. And I think that can be done, as industry under the codes learns more about how to do that job, and I think that is the proper place for it.

Mr. LEWIS. The whole of industry would be represented in the treatment of the problem there and not a fraction, State by State?

Mr. SWOPE. Yes.

Mr. LEWIS. So that if the N.R.A. legislation proves to be permanent it will provide a better agency for achieving that object than this "insurance" plan?

Mr. SWOPE. I think so, because then, don't you see that then we are adapting it to each particular industry, and each particular industry has its special considerations.

Mr. LEWIS. My colleague spoke of the three-way plan which meets your approval, that is, the employers contributing one third, the employees contributing one third, and the State or Federal Government one third. In the light of this measure have you any suggestions that would enable us to apply the three-way plan, or even a two-way plan, say, for employers and employees contributing?

Mr. SWOPE. I do not know; you mean how you could do it?

Mr. LEWIS. Do you think of a way of modifying this measure so that both would be contributors?

Mr. SWOPE. I have said that in my statement. That is promulgated in the report of the Ohio commission. There they ask for one third to be contributed by the employees and two thirds by the employers. Now, if you have that provision in your bill, two thirds being contributed by the employers and one third being contributed by the employees, and then further provide that the employer may deduct from his Federal tax one half of the amount he has paid into the fund, the result would be that one third would be contributed by the employer, one third by the employee, and one third would be contributed by the Federal Government. It works out automatically.

Mr. LEWIS. Now, certain minimum requirements are laid down in this bill, \$7 a week or the equivalent of 20 hours of wages. If the employer were contributing in such a degree as to sustain \$7 a week and the employee came in with contributions that would double the employers', what would you think of the possibility, theoretically, of paying \$14 a week as a minimum?

Mr. SWOPE. \$7 a week is pretty low. It is lower than in any State bill. Wisconsin has \$10 a week and some States have given \$15 a week, and our own has a \$20 a week maximum; not more than half of the employees' pay in a week or a maximum of \$20.

Mr. LEWIS. Not more than half pay?

Mr. SWOPE. Not more than half pay, or a maximum of \$20 a week.

Mr. LEWIS. You think under those conditions the employee might be let into the contribution to improve the amount of payment?

Mr. SWOPE. Yes; because \$7 a week is really inadequate for a situation of that character, it seems to me. I said in my statement it is too modest.

Mr. LEWIS. Now, with reference to the cumulative effect of a 5 percent tax, the only figures I have in mind are those of the manufacturers' census, I think, perhaps, as late as 1927. The wholesale value of the products of the manufacturers, which did not include, of course, the railroads, utilities, nor the farms or coal mines, the wholesale value of the products manufactured in the United States is about 62½ billions of dollars. The proportion of wages and salaries to that wholesale value was 22½ percent, and a 5-percent tax on the wage fund would amount to about 1.3 percent of the wholesale value in that particular case. Supposing all of these factory products have gone through two wage processes, raw material and the final product, 1 percent on the wholesale value would hardly rise above 2 percent, but I thought you stated that it seemed to you that the cumulative effect might rise as high as 4 or 5 percent.

Mr. SWOPE. I am assuming you put this into effect nationwide, and, therefore, that would affect all of the material, wouldn't it?

Mr. LEWIS. Yes.

Mr. SWOPE. To the extent you say, of maybe 2 percent. It would affect our pay roll below \$3,000, under the provisions of the bill 5 percent, of course.

Mr. LEWIS. Yes.

Mr. SWOPE. Now, the effect of that would be less than 5 percent, but I should say it would be around 4 percent. I am just estimating. I asked some of our cost estimators yesterday, because I thought that that question would come up, and their statement was the same as

yours, but if you consider the material, then their costs would go up between 1 and 2 percent, and then if you consider the material and the other factors your cost would go up about 4 percent. The things that would not be affected are the fixed charges.

Mr. Lewis. Mr. Folsom said yesterday in some detail that the difficulty of imposing this tax at a specific time is the fact that the depression had not disappeared or clearly showed disappearance, and as a substitute for fixing the first day of July 1935 or the first day of July 1936, let us say, his suggestion was that the time of the going into effect of this tax should be determined, say, by Presidential proclamation when the employee indices and price indices concurred in indicating that recovery was assured. Would that meet your idea, Mr. Swope?

Mr. Swope. It would be much better than fixing a date. There is no question in my mind about that, but I would go further and say, and, of course, you know better than I do on that—whether really today you are ready to enact this legislation, because there are so many contradictory factors that you have still got to bring together and harmonize. I think you are doing a fine piece of work by focusing attention on it and it is educational.

Mr. Lewis. Many years ago I read a statement by a German professor which impressed me. He said there is a science of politics. It is the science of feasibility. At this time, when the American conscience has at least been awakened on this subject, as I know you have prayed it should be awakened, we have a real possibility of getting the will of the people asserted through this bill. The thought occurs to me that if it is not done now we will be in the situation of a man being criticized for not mending his roof, who answered, "Well, if it is not raining it does not matter, and if it is raining I can't mend it, of course." My experience in public life makes that homily very applicable to this situation. It seems to me that the idea of a proclamation applying this tax when the economic conditions permit meets all of the requirements on the subject.

Mr. Swope. If you do that, Mr. Chairman, I hope you will make the burden on the industry much less than you propose in this bill.

Mr. Lewis. I think that is altogether likely, sir. I am not speaking for the committee, but I think that is altogether likely. Of course, no one has thought, or, at least, the authors of this measure do not think that it would be a cure for depressions. It has not been a cure for the depression in Great Britain, and it has not been a cure for the depression in Germany, although it ought to reduce the extremity of the grade.

Now, with regard to the deposits in the Federal Reserve banks, let us go into that just a moment. You were thinking of the reserve fund that would be raised in each of the States, the accumulated reserves. They ought to be invested safely. They ought to be invested with some return, and they ought to be invested where the funds could be immediately reached. That was your thought?

Mr. Swope. Yes.

Mr. Lewis. Miss Perkins was speaking of the tax payments in those rare instances where the State employers and the States themselves would not provide for the organization of these insurance institutions. Are there any further questions by the members of the committee. Thank you very much indeed, Mr. Swope.

Mr. SWOPE. Thank you, Mr. Chairman, and members of the committee.

(The unemployment pension plan of the General Electric Co. is as follows:)

GENERAL ELECTRIC EMPLOYEES UNEMPLOYMENT PENSION PLAN—STABILIZATION OF EMPLOYMENT—UNEMPLOYMENT PLAN—BYLAWS, RULES, AND REGULATIONS

(Schenectady works, General Electric Co., Oct. 1, 1930. Supersedes preliminary announcement made June 16, 1930)

SCHENECTADY, N. Y., June 16, 1930.

To the Employees:

For years the General Electric Co. has been developing methods of stabilizing employment for its workers. Prominent among these methods has been that of manufacturing for stock to avoid seasonal fluctuations and of producing at times of serious depressions even such special apparatus as turbo-generator units with the hope of future sales. The management has always realized that the first step in solving the problem of unemployment in industry was to use every available means of keeping men at work. The general program which has been used to effectuate this is described in the attached plan, under the heading "Stabilization of Employment." Every effort will be made to carry out such plans more effectively in the future.

Hand in hand with the efforts for greater stabilization has gone the study of ways and means of bringing some form of relief to employees for whom no work can be found in times of general industrial depression. Valuable contributions to the solution of this problem have been made by committees of leading workmen at the Lynn, Schenectady, Erie, and Philadelphia works of the company.

Fundamental in this new plan for relief are the following principles:

1. Joint and equal contributions by employees and the company.
2. Joint participation in the administration of the plan.
3. Aid through group action to those workers who are in need or require temporary loans, or who become unemployed, or for whom only part-time work is available.
4. In times of unemployment emergency, cooperation and assistance from those employees of the company not usually affected by unemployment, and assistance by the company in equal amount.

The plan may be adopted by each works as a unit, by a majority vote of its eligible employees. It has now been adopted or is being considered by the employees of all works. It is of further interest that the plan is quite generally favored by departments which are not usually subject to lay-off in periods of unemployment and whose members would not make normal contributions to the fund, but would contribute during the unemployment emergencies.

This plan is not final in form or in substance and may be modified by joint action of the employees and the company. It is an interesting experiment in which the company is glad to join its employees, first, in endeavoring to find a solution and, second, in ameliorating the tragic effects of unemployment on particular employees, who are in no sense responsible for their unemployment.

GERARD SWOPE, *President.*

STABILIZATION OF EMPLOYMENT

WHEN BUSINESS IS INCREASING

1. Increase the working force by adding employees as slowly as possible.
2. Increase the number in especially busy departments by transfers from other departments.
3. Resort to overtime in particular departments and generally before increasing the working force.
4. Postpone plant renewal and maintenance work as much as possible, employing the men on regular production.

WHEN ORDERS BEGIN TO FALL OFF

1. Cease hiring at once.
2. Cut out all possible overtime and bring departments down to the normal week.
3. Transfer people from slack to busier departments.

4. Stimulate the sales department to secure cooperation from customers and get business for future delivery.

5. Build standard apparatus for stock up to months shipments, based on average of last three years sales, adjusted to expectation of next two years.

6. See that stocks at all factory and district warehouses are brought up to this maximum.

7. Use men on maintenance and repair work, bringing the plant and equipment up to a high standard.

8. Cut the working week as generally and gradually as possible, by departments (down to 50 percent of the normal week).

9. Proceed with construction of increased plant facilities previously planned, using our own men as far as possible.

10. Drop new employees with less than 1 year of service—single people with no dependents and who are most easily spared first—always with not less than 1 week's notice.

11. In accordance with our custom established for some time, employees should be told whether it is a temporary lay-off due to lack of work, or permanent lay-off, and in every instance of permanent lay-off the usual compensation, if any, should be paid, depending upon the character of work, age, and length of service.

GENERAL ELECTRIC EMPLOYEES UNEMPLOYMENT PENSION PLAN

ELIGIBILITY—NORMAL CONTRIBUTIONS

1. Any employee with continuous service with the company of 1 year or more is eligible for participation in the General Electric employees unemployment pension plan (hereinafter called the "plan"), and may by his affirmative action participate in the plan and by so doing agrees to pay into a trust created by General Electric Co. for the benefit of said employees, to be known as "General Electric Co. unemployment pension plan trust" (hereinafter referred to as the "trust"), approximately 1 percent of his actual weekly or monthly earnings for 3 years after the beginning of his participation, but only so long as such earnings are 50 percent or more of his average full-time weekly or monthly earnings, or for such shorter or longer period as may be determined from time to time by the administrators of the plan. These normal contributions shall cease in abnormal times of unemployment, as outlined in article 19 hereof. (The normal contributions may be deducted semiannually from supplementary compensation of employees with 5 or more years of service.)

To simplify the collection of contributions, employees may be grouped according to earnings. Deductions will then be made as follows:

Class	Annual pay rates	Approximate weekly rate	Deduction per week	Deduction semi-annually from 5 percent supplementary compensation
A.....	Under \$1,000.....	\$15	\$0.15	\$3.00
B.....	\$1,000 to \$1,199.....	20	.20	5.20
C.....	\$1,200 to \$1,399.....	25	.25	6.50
D.....	\$1,400 to \$1,599.....	30	.30	7.80
E.....	\$1,600 to \$1,799.....	35	.35	9.10
F.....	\$1,800 to \$1,999.....	40	.40	10.40
G.....	\$2,000 to \$2,399.....	50	.50	13.00
H.....	\$2,400 to \$2,999.....	65	.65	16.00

2. The General Electric Co. will contribute to the trust an amount equal to that contributed by the contributing employees.

Amount allocated for various purposes

3. Three percent of the normal contributions paid into the trust by contributing employees and by the company may be considered by the trustees as available for payment to employees or former employees in need, as provided for in article 10 hereof. The trustees shall be authorized to make loans to employees as specified in article II hereof to an amount not in excess of 27 percent of such normal con-

tributions paid into the trust. The balance of the normal together with all emergency contributions so paid into the trust and all interest shall be made available by the trustees for unemployment payments as specified herein.

ORGANIZATION AND ADMINISTRATION

4. The plan may be adopted at any works and the company will contribute as provided in article 2, upon an affirmative vote of 60 percent or more of the eligible employees of that works.

5. The General Electric Co. will create the trust, and renewals thereof, whose trustees will be the custodians of the fund contributed by the employees and by the General Electric Co., and the General Electric Co. will guarantee 5 percent annual interest thereon. For 2 years after the inauguration of the plan, the General Electric Co. will pay the administration expenses, including time of men necessary for its administration. After this preliminary period, the expenses of administering the plan will be determined and an agreement reached between the company and the administrators of the plan as to a proper method for bearing such administration expenses.

6. The plan will be administered in units of each works.

7. The administration of this plan at each works shall be vested in a board of not less than 4 nor more than 16 administrators, one half of the number representing and elected by the contributing employees and the other half appointed by the president of the General Electric Co., with a chairman elected by the administrators from amongst themselves and the chairman to have a vote. Such other officers shall be elected as the administrators deem necessary.

8. At the larger works a number of committees may be appointed by the administrators, dependent on the number of employees.

PAYMENTS, LOANS AND REPAYMENTS

9. No payments are to be made from the trust for at least 6 months after its creation and thereafter only to employees who have made their normal payments for at least 6 months.

10. *Need.*—Payments to any employee, or former employee of the company who has been retired on old age or disability pension or disability relief, and who is in need, will be considered by the administrators, and after investigation such action will be taken for such amount and for such a period as may be approved by the administrators.

11. *Loans and repayments.*—(a) The trustees shall be authorized to make loans to those who have been contributing employees for 6 months and have made their payments for 6 months into the trust. Loans may be made by such trustees to such contributing employees in amount not exceeding \$200 each, with or without interest, as may be determined by the administrators.

(b) Repayments on loans may be made to the trust by deductions from the pay roll, such deductions to begin when the contributing employee is given full-time work by the company, and to be in amount approximately equivalent to 10 percent of his weekly pay, or an amount over such a period as may be determined by the administrators. If a contributing employee who has been granted a loan leaves the employ of the company, he shall repay his loan upon terms to be arranged by the administrators.

12. *Unemployment.*—The administrators will define unemployment.

13. When a contributing employee receives notice of temporary lay-off from the company, notice shall also go to the administrators.

14. For the first 2 weeks of unemployment there shall be no payment from the trust to a contributing employee.

15. After the first 2 weeks of unemployment, and subject to the approval of the administrators, payment to a contributing employee will be made.

16. Payments made to a contributing employee shall be approximately 50 percent of his average weekly or monthly earnings for full time, but in no case more than \$20 per week.

17. Such payment to an individual contributing employee shall continue to the extent approved by the administrators, but in no event longer than 10 weeks in 12 consecutive months.

18. When a contributing employee is working part time because of lack of work and receiving less than 50 percent of his average weekly or monthly earnings for full time, he will be eligible for payments to be made from the trust amounting to the difference between the amount he is receiving as wages from the company and the maximum he might be entitled to as outlined herein and as laid down from time to time.

WHEN NORMAL CONTRIBUTIONS CEASE

19. When contributing employees are temporarily laid off or working part time, the weekly payments made from the trust for unemployment amount to 2 percent or more of the average weekly earnings of contributing employees (as of the preceding quarter ended Mar. 31, June 30, Sept. 30 or Dec. 31), the administrators shall notify the company of this fact and normal collections from contributing employees, as outlined in article 1, shall cease. Furthermore, the administrators shall notify the company weekly thereafter the amount of the payments made from the trust and the relation of such to the average weekly earnings of contributing employees.

EMERGENCY CONTRIBUTIONS

20. The company agrees, upon such notification, to make a statement that an unemployment emergency has arisen, and to put the following into effect:

The following emergency payments to the trust shall begin and continue as long as payments from the trust fund amount to 2 percent or more of the average weekly earnings of contributing employees, and until the total of the trust is not less than 75 percent of the previously attained maximum.

(a) From all those employed by the company at the particular works and receiving 50 percent and over of their average weekly or monthly full-time earnings, approximately 1 percent of the weekly or monthly earnings. This includes all the clerical and supervisory staff, including the highest officers of the company connected with the particular works.

(b) All the general and district commercial, general manufacturing, engineering, and administrative employees of the company at all works and offices in the United States not on a particular works pay roll, shall contribute their proportion of the percentage outlined in paragraph (a) of this article. Their proportion shall be determined by the ratio of the number of contributing employees of the works at which an emergency exists to the total number of eligible employees of all works of the company (for example, if Schenectady should adopt the plan and its contributing employees should be 20 percent of the total number of eligible employees of all works of the General Electric Co., then 20 percent of 1 percent shall be deducted from the employees designated in paragraph (b) of this article).

(c) The company will contribute to the trust an amount equal to that contributed by the employees as provided in this article.

(d) The method of collection of emergency contributions shall be in accordance with instructions issued by the comptroller of the company.

NORMAL CONTRIBUTIONS RESUMED

21. After an emergency is over, the administrators shall decide upon the renewal of normal payments into the trust from the contributing employees and the length of time they shall continue, similar to those outlined in article 1. After a contributing employee has received payments from the trust in time of unemployment, the administrators shall decide, after his return to work, whether he shall again be called upon to pay into the trust, depending upon the condition of the trust, the length of time he has been a contributing employee before receiving such payments, the amount of such payments and the length of time they shall continue.

PAYMENTS WHEN EMPLOYEES LEAVE OR DIE

22. When a contributing employee leaves the company for any reason (including discharge, retirement on old age or disability pension or disability relief) or dies, the trustees will pay to him, if living, or if not living to the beneficiary designated by him in writing and filed with the company, or in default of such designation to his estate, an amount to be determined as follows:

From his normal contributions (art. 1) will be deducted any payments made to him (arts. 10 and 12 to 13). If, at the works where he was employed, the plan has a net operating loss (arising from other than receipts and repayments of normal contributions), his pro rata share of the loss will then be deducted and the balance will be paid as above provided (in addition to the amounts payable in accordance with the regular old age or disability pension or disability relief or death benefit plans of the company). No payment will be made until any loan to the employee has been repaid.

23. When amounts are paid in accordance with article 22 hereof, an equal amount shall be paid to the company.

24. Certification of the amount of the contributing employees' net payments, as outlines in article 22, made by the comptroller of the company, shall be accepted as final.

25. All payments or loans from the trust fund are contingent upon the availability of trust funds at the time of application.

INTERPRETATION—AMENDMENT AND TERMINATION OF PLAN

26. Rules and regulations governing receipts and payments under the plan will be made by the administrators, and their rulings will be final. After the plan has been in operation for 2 years, the administrators may decide in view of their experience, what the normal amount to be collected from a contributing employee shall be, the percentages to be set aside for payments and loans as herein provided, the amount to be paid to contributing employees for unemployment, and the amount of loans that may be made and the terms under which repayments shall be made.

27. This plan may be modified, amended or changed at any time by recommendation of a two thirds vote of the administrators, at each participating works.

28. If, because of enactment of any law, state or Federal, or for any other reason, it appears to the company that it would not be good policy to continue its support of the plan, it will confer with the administrators and will give them at least 400 days notice of its decision as to abandonment of its support of the plan.

29. The employees, acting through their administrators, may decide to continue the plan and trust without the support of the company as herein provided, in which event the company will be entitled to receive only one half the amount that would have been paid to participating employees as outlined in article 22.

30. If the administrators, elected by the employees, decide to abandon the plan and two thirds of the contributing employees concur, each contributing employee will be paid the same amount he would receive if he then left the company (art. 22). An equal amount will be paid to the company (Art. 23) less the amount, if any, the company has received in accordance with article 29. Any balance then remaining to the credit of a works unit shall be applied by the trustees to a purpose or purposes recommended by the board of administrators as beneficial to the employees at that works.

GENERAL ELECTRIC EMPLOYEES UNEMPLOYMENT PENSION PLAN—BYLAWS, SCHENECTADY WORKS

ARTICLE I. ADMINISTRATORS

1. The plan at the Schenectady works shall be administered by a board of administrators 10 in number. Five administrators (hereinafter referred to as elected administrators) shall be elected from among the contributing employees in the plan at such works. Five administrators (hereinafter referred to as appointed administrators) shall be appointed by the president of the General Electric Co. in accordance with the plan. All administrators must be Employees of the General Electric Co.

2. The term of office of all administrators shall be for 3 years and until their respective successors shall be elected or appointed, as the case may be, except that the terms of office of two of the initial elected administrators and of two of the initial appointed administrators shall be 1 year; and of two of the initial elected administrators and of two of the initial appointed administrators shall be 2 years.

3. The elected administrators shall be elected by ballot at an election held during the month of December in each year for the purpose of electing successors to those elected administrators whose terms shall expire. Such provision as to nominations prior to elections and such regulations as may be necessary for the conduct of such elections shall be prescribed by the board of administrators from time to time.

4. The administrators shall have all the powers and authorities expressly conferred upon them by the plan, and in addition thereto may exercise all such powers and do all such acts and things as may be necessary or incident to the administration of the plan in accordance with the provisions thereof.

5. The board of administrators may adopt rules and regulations for the administration of the plan and appoint committees, standing or special, from time

to time, from among their number or otherwise, and confer powers on such committees and revoke such powers and terminate the existence of such committees at pleasure.

6. Elected administrators may be removed from office at any time by two thirds vote of the elected administrators, ratified by a majority vote of the contributing employees of the plan eligible to vote for his successor. Appointed administrators may be removed from office by the president of the General Electric Co.

ARTICLE II. OFFICERS

1. The executive officers of the board of administrators shall consist of a chairman, vice chairman and secretary, all of whom shall be elected annually by and from members of the board at their first meeting after the election of the elected administrators.

2. The duties of the chairman shall be to preside at the meetings of the board of administrators and to perform the other duties usually appertaining to that office and such other duties as may be determined by the board.

3. The vice chairman shall perform the duties of the chairman in the absence of the latter and such other duties as may be prescribed by the board.

4. The secretary shall keep accurate records of all meetings of contributing employees and of the board of administrators and shall send a copy of all minutes to the trustees (care of F. B. Cliffe, Schenectady), and shall have custody and care of such records. He shall notify the trustees (care of the works paymaster) of all applications for payments approved by the administrators. He shall perform such other duties in the administration of the plan as the board of administrators may prescribe.

ARTICLE III. MEETINGS OF THE ADMINISTRATORS

1. The board of administrators may meet at such times and at such places as it may determine. Special meetings may be called by the chairman.

2. At all meetings of the board of administrators three elected administrators and three appointed administrators shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of two thirds of the administrators present at any meeting at which there is a quorum shall be the act of the board of administrators.

ARTICLE IV. VACANCIES

1. If the office of any elected administrator becomes vacant by reason of death, resignation, removal, disqualification or otherwise, his successor for his unexpired term shall be chosen at a special election, and if the office of any appointed administrator becomes vacant for any reason, his successor shall be appointed by the president of the General Electric Co.

ARTICLE V. AMENDMENT OF PLAN

1. Amendment of the plan pursuant to article 27 thereof shall only be made after action at two meetings of the board, the second of which shall be held not less than 30 days nor more than 90 days after the first meeting.

ARTICLE VI. AMENDMENT OF BYLAWS

1. The bylaws may be altered or amended, or repealed in whole or in part by action at two meetings of the board, the second of which shall be held not less than 30 days nor more than 90 days after the first meeting.

RULES AND REGULATIONS ADOPTED BY THE ADMINISTRATORS, SCHENECTADY WORKS, GENERAL ELECTRIC EMPLOYEES UNEMPLOYMENT PENSION PLAN

These rules supplement the plan and the bylaws at the Schenectady works.

EMPLOYEES AND THE PLAN

1. *Applications for participants.*—Applications for participation in the plan may be secured from works councilmen, department offices of the pay-roll department. Completed applications bearing signatures of the applicants should be forwarded to the pay-roll department.

2. *Employees who resign from the plan.*—Normal contributions made to the fund by contributing employees who voluntarily resign from the plan will be left to their credit until they leave the employ of the company, at which time

their pro rata share will be computed and refunded as provided in the plan, article 22.

3. *Employees who attempt fraud.*—An employee who shall attempt to defraud the plan may be expelled by vote of the administrators, upon sufficient proof being found, and shall lose all claim upon the fund and shall not be entitled to any refund.

4. *Employees who have completed payments.*—Employees who have completed payment of normal contributions for the required time (such as 3 years) continue thereafter to be regarded as "contributing employees."

5. *Employees transferred to other works.*—If a contributing employee is transferred to a works, department, or district in which the plan is not in operation, refund will be made as though he had left the company. If, without breaking continuity of service, an employee to whom such a refund has been made by any works is subsequently transferred to Schenectady works, he may again participate as a new contributing employee, but he shall be eligible for payments without waiting 6 months.

6. *Definition of unemployment.*—Unemployment commences when a contributing employee is laid off because of lack of work. Unemployment ceases when such employee is offered suitable work within the company, at a rate of compensation not less than the regular rate normally paid for such work, that will result in earnings of at least 50 percent of his normal hourly earnings, and not less than his weekly unemployment compensation. Temporary work outside the company shall not influence a contributing employee's eligibility for part-time payments, but such payments can only be made after investigation by and with the approval of the local administrators.

7. *Applications for loans and payments to employees in need, unemployed, or working short time.*—Applications for loans, unemployment or short-time payments may be submitted to the representative of the contributing employees in the department of the applicant or to any member of the board of administrators. Applications, after receiving the notations of the representative or administrator to whom they are submitted, shall be referred to the board of administrators for final approval.

8. *Interest on loans.*—Interest will not be charged on any loan.

9. *Approval of administrators.*—Applications for loans may be approved, at the discretion of the administrators in each case, after reviewing the circumstances.

10. *Conditions under which applications for loans will be considered.*—(a) A contributing employee who is in need through personal sickness, sickness or death in family, emergency in case of fire, or other disaster, may be loaned an amount not to exceed \$200.

(b) A contributing employee who has received the maximum amount of unemployment payments in accordance with article 17 or 18 of the plan may be loaned an amount not in excess of his average weekly earnings and not in excess of \$20 per week, while unemployed thereafter, but not exceeding a total loan of \$200.

(c) A contributing employee who has received the maximum amount of unemployment payments in accordance with article 17 or 18 of the plan and who on account of lack of work has been earning less than an average of \$20 per week for a period of 4 weeks may be loaned weekly an amount not to exceed the difference between his earnings and \$20 per week for the period of reduced earnings, but not exceeding a total loan of \$200. Under no circumstances may the combined amount of the weekly earnings and loan exceed his normal week's wages.

(d) A contributing employee who, during a period of not less than 3 months has, on account of lack of work, earned less than three fourths of his normal earnings may be loaned an amount not exceeding one third of his loss of earnings during that period. If a contributing employee is granted a loan on this basis, or in accordance with the preceding paragraph, the period used in computing the amount of the loan must be eliminated in computing any subsequent loans to that contributing employee and the aggregate amount of loans outstanding must not exceed \$200. Repayments of loans, granted under the provisions of this paragraph, shall begin at a time and shall continue at a rate to be determined by the board of administrators.

11. *Employees unemployed or working part time.*—(a) If, because of his own unemployment or part-time work, an employee does not make normal contributions for a time, his period of payment of normal contributions will not be extended beyond the 3 years originally scheduled.

(b) If, because of an unemployment emergency, the collection of normal contributions is suspended for all contributing employees at this works, the period for the collection of normal contributions will be extended beyond 3 years for all

employees who have not completed payment of their normal contributions for 3 years, for a time equal to the period for which normal contributions were suspended.

(c) If an employee is temporarily removed from the pay roll for any reason other than unemployment, and is subsequently reinstated without breaking continuity, his period of payment will be extended until he has made normal contributions for 3 years.

REPRESENTATION

12. *Representation by works councilmen.*—(a) In factory departments in which the works councilmen are contributing employees, said councilmen shall act as representatives of the contributing employees in their respective departments; in departments in which the councilmen are not contributing employees and in departments not represented on the works council, representatives shall be elected by the contributing employees in those departments to serve terms corresponding to the terms of works councilmen.

(b) There shall be an annual meeting of representatives of the contributing employees on the third Tuesday of January for the purpose of receiving reports submitted by the executive officers and receiving suggestions from the contributing employees, through their representatives. Representatives shall be considered as official delegates to this meeting with full authority to vote for the contributing employees represented by them.

(c) Special meetings with representation as outlined in 12 (b) may be called by the board of administrators, if in the opinion of the board such meetings are necessary.

ADMINISTRATORS

13. The works council shall determine five divisions of the works. Each division shall elect one administrator.

14. *Nomination and election.*—(a) Prior to the annual election a primary shall be held for the purpose of making nominations; in order to facilitate the selection of competent candidates, there shall be held in each division from which an administrator is to be elected, meetings of the representatives of that division for the purpose of selecting ten names to appear on the primary ballot. Provision shall be made for writing in the name of another candidate if a contributing employee does not wish to vote for one of the ten selected by the meeting.

(b) The five contributing employees receiving the largest number of votes in each division holding an election shall be declared as nominees and their names shall appear as such on the final ballot. On the final ballot there shall be no provision for writing in the name of another candidate. The nominee receiving the highest number of votes shall be declared elected as administrator to represent his division.

15. *Meetings of administrators.*—The board of administrators shall meet on the first Monday of every month or at the call of the chairman.

16. *Duties of administrators.*—In addition to those specified in the plan and bylaws, the duties of the administrators are:

(a) To elect by January 10 of each year the officers provided for by article II of the bylaws.

(b) To appoint such committees or assistants to the executive officers as it may consider necessary for the efficient administration of the plan.

(c) To approve or disapprove all loans applied for under the provisions of article II of the plan.

(d) To approve or disapprove requests for unemployment payments, provided for in articles 12 to 18 of the plan.

(e) To approve or disapprove applications for payments to employees in need, provided for in article 10 of the plan.

(f) To arrange for an annual audit of the accounts of the plan.

(g) Such other duties as may be considered of assistance in the efficient operation of the plan.

AMENDMENTS TO BYLAWS

17. Amendments may be initiated by the contributing employees by submitting to the board of administrators a petition bearing the names of 15 representatives of contributing employees. Each administrator shall be sent a written copy of the proposed amendment at least 1 week prior to the date of the administrators' meeting at which the amendment is to be voted upon.

(b) When a proposed amendment to the plan or bylaws has been approved at one meeting of the administrators, it shall be submitted to a meeting of the representatives (rule 10) to be held before the second meeting of the administrators.

ABANDONMENT OF PLAN

18. If it is decided to abandon the plan (art. 30 of the plan), no further normal payments shall be collected from the contributing employees and no unemployment payments shall be made and no loans shall be granted; repayment of loans granted prior to date of decision to discontinue shall continue until fully paid; relief payments may be continued if funds are available until final distribution of funds. Final distribution, as provided in article 30 of the plan, shall take place approximately 18 months after the decision to abandon the plan.

OTHER RULES AND REGULATIONS

19. Administrators may, from time to time, adopt other rules, or change these. Such new rules, or changes, shall be reported promptly to the representatives and published in the Schenectady Works News.

Mr. LEWIS. Mr. Howard Cullman.

STATEMENT OF HON. HOWARD S. CULLMAN, CHAIRMAN, NEW YORK CONFERENCE FOR UNEMPLOYMENT INSURANCE LEGISLATION, NEW YORK CITY

Mr. LEWIS. Will you please tell us whom you represent, your relation to this subject, and so forth?

Mr. CULLMAN. Mr. Chairman, I am appearing here today at your request as chairman of the New York Conference for Unemployment Insurance Legislation, which is the clearing house of practically all of the important welfare social agencies in New York City that have for many years tried to enact unemployment insurance in New York State. As chairman of this conference and as an employer and as a citizen, I offer my unqualified indorsement of the Wagner-Lewis bill. I fully agree with the President, the Secretary of Labor, and our other enlightened leaders that this measure is, from a social viewpoint, one of the most important that has come before Congress in a decade.

We, in New York, are keenly aware of the need for a permanent plan of unemployment reserves. Charity and all forms of temporary relief will not do. They have proven very costly to both industry and the State. A recent report to Governor Lehman shows that 217 million dollars were spent for direct relief from November 1, 1931, to February 1, 1934. If the temporary set-up had met the problem, the cost would not be all-important. But the system has been inadequate and has demoralized the men and women who were forced to seek this emergency care. It has therefore failed from every point of view.

Experience in New York State has made the public ready for unemployment insurance. The State commission, which studied the subject, reported favorably. The Governor has urged the enactment of an unemployment insurance bill. Bills are now pending before the State legislature, sponsored by the New York State Federation of Labor and many welfare and civic organizations of which the New York conference represents a large group.

Last year, a bill was passed by the senate of the State of New York. Unfortunately a small group of reactionaries who have consistently opposed all social legislation, killed the bill in the assembly committee for purely political reasons, despite the overwhelming demand of both parties that the assembly promptly ratify the action taken by the senate.

Up to the present time the principal argument of opponents of unemployment insurance in New York has been that it would penalize industry in our State. With industrial costs already high in New York, it was argued that the additional burden of contributing to an unemployment reserve fund would serve to drive industry to neighboring States.

Mr. LEWIS. What was the tax suggested there?

Mr. CULLMAN. Where?

Mr. LEWIS. In the one you are talking about now?

Mr. CULLMAN. We are talking about 2 percent. Many have felt this argument to be specious, in view of the fact that social legislation has in the past had little if any discouraging effect upon industry. Nonetheless this fear of losing some competitive advantage has served as a pretext for opposing unemployment insurance.

The Wagner-Lewis bill effectively ends this contention by placing all employers on an equal basis. At the same time the flexible provisions of the bill, permitting each State to frame its own specific measure, will make it possible for the laws to meet the particular needs of each State.

At the present time, although public opinion in New York State is ready for an unemployment insurance bill, the legislature is eagerly awaiting Federal action. This, I believe, is also the situation in other States. Some system of unemployment reserves must now be established while the evils of unemployment and haphazard relief are vividly before us, since experience has shown us that we are prone to forget these evils all too quickly as soon as conditions improve.

The Congress of the United States holds the key to the situation in the Wagner-Lewis bill. This bill can and will lay the foundation for safeguarding American citizens against the evils of insecurity.

Now, if I may, I would like to amplify that statement briefly. I respectfully disagree with the statement that was made before your honorable body this morning that any national progress or any social progress advancing security and protection to labor can be entered into in this country on a voluntary basis. None of the great measures of social progress have been accomplished on that basis. It could not be done with the Workmen's Compensation Act, nor could it be done in the case of child-labor legislation. All of the progressive legislation which has been enacted in this regard has been done on a compulsory basis rather than on a voluntary basis. I have very great respect for Mr. Swope and the General Electric Co. Unfortunately, we have very few General Electric Co.'s in this country.

I think we ought to protect labor of the country at large and the individuals also who have not the foresight that Mr. Swope and his organization has shown to such a great degree in these times. I want to go on record as opposing any delay in the enactment of this legislation. Delay to my mind will mean sabotage and the loss of the work we have put in for many years in trying to put through unemployment insurance. Today everybody is looking to Washington on all social legislation, on all progressive legislation of all kinds affecting the welfare of the Nation, and they are marking time to see what is going to happen in this particular instance to the Wagner-Lewis bill and in other instances to other legislation, and I think if this bill is not enacted it will do more harm than if this bill had never

been proposed here at all. We need a national plan of unemployment insurance for the Nation as a whole. While the P.W.A., the C.W.A., and the C.C.C. and all of these other organizations have done a marvelous job and have been a help in this time of emergency, I think they have been merely palliative. I think also they have done, on the other hand, a great deal to undermine the morale and self respect of the individual.

In regard to a point made by Mr. Swope regarding the different States and the legislation in those various States adaptable to the industries and the situations within the States, as I understand the Wagner-Lewis bill, each State has a right to keep on discussing ad infinitum the conditions applying to their own industrial plants. There is no objection to the State planning in any way they want to, but they are forced to make contribution to the general fund in case they do not have a fund for this purpose and in case they do not meet the requirements set-up.

I further disagree with Mr. Swope that the imposition of a 5 percent tax would necessarily mean a price increase of 5 percent in products, because the labor cost in most products is a very minor factor. Take, for instance, the tobacco industry. In the manufacture of cigarettes the labor is slightly under 2 percent of the total cost of the article.

Mr. LEWIS. Of the cost of the article?

Mr. CULLMAN. Yes, sir; of the cost of the article. Take 5 percent of 2 percent of the total cost of that commodity and it amounts to practically nothing. It is reasonable to expect that we will have the same situation in regard to other industries where the cost of labor to the total cost of the article may be even less, and where a 5 percent tax on the labor factor may be an insignificant fraction of a percent. In some factories where the labor cost is an important factor it may get up as high as Mr. Swope has suggested, to 3 or 4 percent, but I doubt if on a cross section of all manufactured articles if the additional cost will average more than an increase of 1 percent to the consumer. Of course, there will be some exceptions. Miss Perkins has suggested that the funds realized by the imposition of this tax would amount to approximately 1 billion dollars a year. Based on the experience of the last few years unfortunately a billion dollars is not as large a sum as it was once thought to be, but a billion dollars is still a substantial amount, but I am hopeful that we can get many billions of dollars in the reserve fund. If we never need it all the better, but I am strongly in favor of a substantial tax. I am in favor of a tax of approximately 5 percent, because unless the reserves are substantial in amount, unless we have what we call a kitty in the pool, I am afraid the main intent and objects of this bill will not be made available. I thank you.

Mr. LEWIS. You said you were speaking at the moment as an industrialist. What employment do you represent?

Mr. CULLMAN. The tobacco business.

Mr. LEWIS. Cigar manufacturers?

Mr. CULLMAN. I supply cigar manufacturers with their raw material when and as they need it.

Mr. LEWIS. With the raw material?

Mr. CULLMAN. Yes.

Mr. LEWIS. Thank you, Mr. Cullman.

Mr. LEWIS. Mr. Leeds.

STATEMENT OF M. E. LEEDS, REPRESENTING LEEDS & NORTHRUP CO., PHILADELPHIA

Mr. LEEDS. I wish to testify as a relatively small manufacturer who has used unemployment insurance, a private plan.

Mr. LEWIS. Won't you tell the committee for the record your relation to this subject, and what industry you represent?

Mr. LEEDS. Yes; my name is Morris E. Leeds, president of Leeds & Northrup Co., manufacturers of technical apparatus, electrical measuring and temperature measuring equipment. We have had a private employment fund since 1923, and I have watched the progress of this sort of proposal, private and public with a great deal of interest since that time and before, and I am convinced, that nothing but legislation by the National Government will satisfactorily meet the situation, and so, I am heartily in favor of the general principles of your bill. I want to submit for whatever they may be worth a rather complete record of what happened in our case. I do not mean by submitting this that you should encumber your record with it if you do not think it important to go into the record.

Mr. LEWIS. Won't you take a little time to tell us a word about it, and your experience?

Mr. LEEDS. I shall be glad to do that. We began accumulating a fund in 1923, and we accumulated it at the rate of 2 percent on our pay roll each pay day and set it aside in a trust company so that it would not be at the hazards of the business, but for that particular purpose. At that time we had no experience in unemployment such as we have since run into, and on our past experience we thought that if the fund had in it as much as twice the amount of the largest pay roll of the previous 12 months it would be sufficient for the emergency.

Mr. LEWIS. How many employees do you have?

Mr. LEEDS. I will submit an employee statement. It is a complete statement by months, and shows that the number has ranged from 228 in January 1923 to a maximum of 1,170 in 1930.

Mr. LEWIS. They are largely technicians, or very skilled mechanics?

Mr. LEEDS. They ranged from the skilled mechanics to their helpers, and a good many women are included among the employees. The processes are largely subdivided so that it is not a case where one skilled mechanic makes an instrument. It is one of those subdivided process which are now very common in industry.

Mr. WEST. Is there any great seasonal demand in your industry?

Mr. LEEDS. No.

Mr. WEST. It is relatively stable?

Mr. LEEDS. Yes, it is relatively stable, and there is very little seasonal demand.

Mr. LEWIS. You spoke a while ago about 1,100 employees at one time and 228 at another.

Mr. LEEDS. That was on account of growth. Ours was one of those industries that grew up pretty rapid during this period and the range was from the beginning to the maximum, which was in 1930, but as you will see, if you care to look over this table, there was not much fluctuation.

In the first table there is the statement of the contributions year by year that the company paid in, running \$15,000 in the year 1923, then \$8,000, \$6,000, \$7,000, and then down to 1927 there was a contribution

of \$700, and in 1928 it went up to \$7,000, and again in 1929 it amounted to \$29,000, then nothing in 1930 or in 1931, and then again \$6,000 in the year 1932. There was a total amount of contributions by the company of \$74,000 and with interest accumulations added it makes a total of \$87,000, as the amount of the fund which we had available to meet unemployment requirements.

On the second page there is a statement of the average number of people on the pay roll by years, and the total pay roll, which amounted to \$11,201,061 in that time, from the year 1922 through the year 1932. There is also a statement of the pay roll that was covered by insurance in those years, a total of \$7,900,000, and of the total benefits available, and then there are these other statements of employees which I think will make possible any kind of analysis of what happened in our case that you care to make. The benefits which were paid out were on this scale: For 3 months' service with the company we paid 3 weeks' benefits; for 1 year's service with the company we paid 7 weeks; for 2 years' service with the company we paid 10 weeks; for 3 years' service with the company we paid 15 weeks' benefits; for 4 years' service with the company we paid 20 weeks' benefits; and for 5 years' service with the company and over we paid 26 weeks' benefits.

So, you see, we ran into rather longer benefits than are ordinarily specified for terms of service of that length. The benefits paid were on the basis of 75 percent of the income at the time of dismissal, based on the normal week's wages, for employees who had dependents, and if a person had no dependents it was 50 percent of the average or normal week's wages. There are other benefits of unemployment and they are described in this little book here.

Now, with regard to the amount of the percentage tax on the pay roll which is necessary to meet the requirements, these figures for what they are worth indicate that considerably less than 5 percent would be needed. The statistical requirements of this fund, if we had paid everybody laid off during the period would have been \$167,000. This is slightly less than 2 percent of the pay roll of those insured. So, on the basis of this experience, I cannot understand the reason for so large a figure as 5 percent.

Mr. LEWIS. Your reserves are not even yet exhausted?

Mr. LEEDS. Oh, yes, much more than exhausted. We only accumulated \$87,000 in the fund, but there is no reason why we should not have accumulated more on that 2 percent basis, except for the fact that on our previous experience we felt that when we had a certain maximum that we would not need to accumulate any more, so that there were considerable periods during that time when we were not accumulating anything at all due to that false impression. On our previous experience we felt that we were not going to meet such a depression.

Mr. LEWIS. Beginning with a 2 percent tax in 1923 you think you would have been able to meet it on your plan?

Mr. LEEDS. Yes, more than meet it. We went through a very severe depression. Our maximum year, probably ending in June 1930, was just under \$6,000,000, and at the depth of the depression we were down under \$2,000,000. So that you can see we suffered very severely. We are a capital goods industry, and we suffered a very severe measure of the depression. In spite of that measure of the depression these figures seem to me to indicate that so large a tax as 5 percent of the pay roll is not necessary.

Mr. LEWIS. Two percent would have enabled you to go through with your plan, even when you got down to one third of your peak?

Mr. LEEDS. It would, sir.

Mr. LEWIS. If it is not disclosing any private information, what were your figures in normal years, not the peak years?

Mr. LEEDS. That is difficult to say on account of this growth factor. As I showed you from the employee record it ranged from 238 employees up to 1,100 employees, showing the growth factor. When you have gone through a period like 1923 to 1929, at a rapid growth rate, it is not easy to say what your average is.

Mr. LEWIS. I think you better explain the growth factor for us.

Mr. LEEDS. The growth rate, the rate of increase in volume of our business.

Mr. LEWIS. You mean your business increased from 2.28 to 11?

Mr. LEEDS. As specified in number of employees.

Mr. LEWIS. That is, it multiplied by about five during that period?

Mr. LEEDS. During that period the number of employees increased that much. I do not have the sales figures, but there was a similar growth.

Mr. LEWIS. Generally speaking, you believe that in this country, as in other countries, society must face the duty of making provision on the subject by general law?

Mr. LEEDS. I do, sir; and I not only believe that, but I believe in the light of our experience that the care of the unemployed was ultimately placed at the door of the Federal Government, in the light of our experience that it is very difficult to get State governments to act, that it is quite proper to have a Federal law on the subject.

Mr. LEWIS. Would you prefer that the law itself be uniform in its requirements as to benefits and in the imposition of burden, and would you prefer to have its administration in the States, or down here in Washington?

Mr. LEEDS. I think that the provision that you have in the law that the employer may be exempt for what he pays in each State is a wise one, if that answers your question.

Mr. LEWIS. Perhaps I had better answer it myself by saying that representatives in any other parliament in the world would be representing 60,000 people, and we here in Congress are representing from a quarter of a million to 300,000 people, and yet the continuous addition of administrative functions is making the discharge of legislative duties by Members of Congress nearly impossible. I feel while the necessity exceeds the competitive matter, these interferences with industry, or these conditionings on industry should be uniform to protect competitors and that, as early as possible the administration should be left back home with the respective States.

Mr. LEEDS. Yes, I agree with that.

Mr. WEST. Of course, you do feel that the compulsory element in the program is essential, if we are to safeguard the building up of this fund for an emergency. Your own experience has shown if it is voluntary there will be periods when the management will feel that there is no danger of unemployment, and they will allow provisions for the fund to lapse, but if you have a compulsory feature you will have a continuous preparation against an emergency.

Mr. LEEDS. Yes, I agree with that, except I do not think they will start if it is allowed to be voluntary in any very large number.

Mr. WEST. Yes.

Mr. LEEDS. I think the number of voluntary plans will be very few indeed. I say that not only on the basis of the experience that we have had, but as a member of a committee in Philadelphia that made an effort to persuade other companies to have voluntary plans.

Mr. WEST. Your experience has been that there is a reluctance on their part to initiate them?

Mr. LEEDS. Yes. I do not think you are quite fair in saying that it was a lack of interest that made us lapse from time to time in our contributions. In our case it was just a mis-estimate of the responsibility we were up against.

Mr. WEST. Your judgment was that the period of the emergency was adequately safeguarded by the preparation which you made, which seemed to be adequate at that time?

Mr. LEEDS. Yes; but as a matter of fact it did not prove to be so.

Mr. LEWIS. In other words, you were good samaritans, but bad actuaries?

Mr. LEEDS. Yes; we were.

Mr. LEWIS. Mr. Swope seems to think that fixing a determined date if the tax were reduced to 2 percent would not be so serious a matter if by the date for application of the tax as provided in this bill recovery had been complete. If 5 percent were imposed it might be burdensome, and yet a 2 percent tax might be suffered and we would have the institution started or established.

Mr. LEEDS. Yes. I agree with that. I must say I am a little at a loss to know why a 2 percent is such a formidable factor to employers, because other things affect our pay roll more than that, and we just absorb them. Nobody simply asks for a 2-percent increase in pay. They ask for 5 or 10 percent, and they get it.

Mr. LEWIS. Material costs rise more than 5 percent when they rise in price.

Mr. LEEDS. Yes. Just one more thing that I would like to suggest.

Mr. LEWIS. I wish you would say anything that will help us in our decision.

Mr. LEEDS. If the national law is passed, I suppose you have contemplated the situation of the employer who is near the border line of bankruptcy and at the end of the year can't pay this tax, be it 2 percent or 5 percent. It seems to me that what the employer will do is meet his current pay roll if he can possibly raise the money, hoping at the end of the year he will have better business and therefore be in a position to pay his tax. As an administrative measure it might be worthy of consideration to have it set aside at more frequent periods than once a year.

Mr. LEWIS. I think that is a valuable suggestion. Have you anything further?

Mr. LEEDS. No, I have nothing further. There is a lot more information in there, but there is no use burdening you with it now.

Mr. LEWIS. Yes. Any matter of importance may be supplied for the record.

Mr. LEEDS. You might be interested to know that while many of the amounts paid to these people were rather small, on the other hand, among some of our higher-priced people their benefits ran up as high as \$941 and \$965.

Mr. LEWIS. The committee thanks you for your contribution.
(The documents referred to by Mr. Leeds are as follows:)

UNEMPLOYMENT FUND—RESOLUTION OF BOARD OF DIRECTORS—COMMUNICATION TO BOARD OF COUNCILLORS—ARTICLES GOVERNING ADMINISTRATION AND CONTROL—JULY 1923—LEEDS & NORTHRUP CO., 4901 STENTON AVENUE, PHILADELPHIA

RESOLUTION OF THE BOARD OF DIRECTORS

Whereas the nature of the business of the Leeds & Northrup Co. is such as to require a specially skilled class of employees, and

Whereas in times of business depression, experience indicates that it becomes necessary to lay off a portion of said employees due to lack of work, with the consequent possibility of losing such employees permanently: Therefore be it

Resolved, That the company establish a fund to be known as the "unemployment fund" of the Leeds & Northrup Co., to be used for continuing the pay of such of its employees as may from time to time be laid off for lack of work, at such rates and for such periods of time as may hereafter be determined by a committee authorized by the executive committee of the company; and be it further

Resolved, That commencing January 1, 1923, the company shall contribute to this fund weekly an amount not exceeding 2 percent of its total weekly pay roll until such payments, with the interest accumulations, shall have brought the fund up to an amount equivalent to twice the maximum weekly pay roll in the preceding 12-month period, and then no further payments shall be made until at the end of any weekly period the fund shall have fallen below a figure equivalent to twice the maximum weekly pay roll for the then preceding 12-month period; and be it further

Resolved, That the fund be placed in the hands of the Germantown Trust Co. as trustee, operating under a mutually acceptable trust agreement, the trustee to receive all moneys paid to the fund by the company, to invest such moneys in such manner as they may see fit, to receive interest accumulations upon the fund, which accumulations are to be added to the principal amount in their hands, and to pay out of the fund for the purpose for which the fund is set aside, such amounts as are from time to time certified to by such person or persons as this board may from time to time designate; and be it further

Resolved, That the company appropriate at this time the sum of \$5,000 as a first payment to the fund, representing approximately 2 percent of the total pay roll for the first 7 months of this fiscal year. (Minute of board of directors, Feb. 16, 1923.)

COMMUNICATION FROM EXECUTIVE COMMITTEE, TO COUNCIL

FEBRUARY 18, 1923.

We have now started an unemployment benefit fund in accordance with the attached resolutions of our board and deed of trust executed with the Germantown Trust Co. We should like to have you assume the chief responsibility for the management and disbursement of this fund under the following general conditions. If council is willing to assume this responsibility, the company will accept the conditions of paragraphs 6 and 7 and issue orders to the trustee for payments from the fund and approve investment by the trustee, only upon written instructions from the unemployment fund committee as specified.

CONDITIONS

1. The fund shall be used to continue for a time and in part not exceeding 75 percent, the pay of such of the company's permanent wage earning employees as may from time to time be laid off because of lack of work and shall be also used to compensate those who due to lack of work have their working hours reduced below the standard, which is now 44 hours per week, to an amount not exceeding 75 percent of the amount representing the time thus lost.

2. Permanent wage earning employees shall be defined as those who are receiving annual compensation of less than \$2,600 per year, who have been in the employ of the company more than 3 months and who have not signed a definite written statement that their employment is temporary.

3. This fund shall be used only for those who are laid off because of lack of work and shall not apply to those who are discharged from the company's employ; but if the appeal board shall recommend that a discharged employee be reinstated and the company does not reinstate him he shall be compensated under the fund as if laid off.

4. The rules governing the payment of the money to those laid off shall be formulated by a joint committee of the council and the executive committee

consisting of 3 members elected by the council and 2 by the executive committee, but shall only be effective when and in the form finally approved by council.

5. The administration of the fund under these conditions and the rules approved by council shall be in the hands of a joint committee of council and the executive committee, to be known as the unemployment fund committee, three members of which are to be appointed annually by council at its organization meeting, and two members to be appointed annually by the executive committee during the month of November, all to serve until their successors are duly appointed and qualified. Vacancies occurring in this committee shall be filled by the body in whose representation the vacancy or vacancies exist.

6. All payments from the fund are to be made by the trustee (Germantown Trust Co.) upon orders issued by the company in accordance with written instructions from the unemployment fund committee, signed by three members of that committee, two of whom at least must be the council representatives upon it; and such instructions from the unemployment fund committee shall certify that the payments are in accordance with the purpose of the fund.

7. All investments of the fund shall be made by the trustee upon written approval of the company which shall be given only upon written instructions from the unemployment fund committee signed by three members of that committee, two of whom at least must be the council representatives upon it.

(Signed) M. E. LEEDS,
For the Executive Committee.

FEBRUARY 20, 1923.

At the regular monthly meeting of the board of councillors of the cooperative association held February 20, 1923, the communication from the executive committee in regard to the unemployment benefit fund, was accepted in full and three members of a joint committee to formulate rules for the use of the fund were elected.

Based on the committee's report the following articles governing the administration and control of the unemployment fund were approved by the board of councillors and the executive committee on July 17, 1923, and August 30, 1923, respectively.

ARTICLES GOVERNING ADMINISTRATION AND CONTROL OF UNEMPLOYMENT FUND— ADMINISTRATION OF FUND

The administration of the fund, under the rules here set forth, shall be in the hands of a joint committee known as the unemployment fund committee comprising three members of the cooperative association to be elected annually by council at its organization meeting, and two members to be appointed annually by the executive committee during the month of November, all to serve until their successors are duly appointed, elected, and qualified. Vacancies occurring in this committee shall be filled by the body in whose representation the vacancy or vacancies exist.

All decisions of this committee must have the approval of, and all payments from this fund must be signed by three members of the committee, two of whom at least must be the council representatives.

DUTIES OF UNEMPLOYMENT FUND COMMITTEE

This committee shall pass on all registrations for benefits, decide all cases relative to dependents, review cases receiving benefits when necessary and make decision on all special cases not affected by rules.

All payments from the fund shall be made by the trustee upon instructions issued by this committee and ordered by the company, and such instructions from the unemployment committee shall certify that the payments are in accordance with the purpose of the fund.

All investments of the fund shall be made by the trustee upon written approval of the committee and certified to by the company.

WHO SHALL BE PAID AND WHEN

Any employee of the Leeds & Northrup Co. who is laid off because of lack of work, or because of lack of work has his or her working hours reduced below the standard, which is now 44 hours per week, who is receiving annual compensation of less than \$2,600 and who has not signed a definite written statement that his or her employment is temporary, shall be entitled to share in the unemployment fund according to the rules here set forth.

Likewise any employee transferred to another department because of lack of work who suffers a reduction in wages shall share in this fund in the manner set forth.

Any discharged employee whom the appeal board recommends be reinstated and whom the company does not reinstate shall share in the unemployment fund as if laid off.

No payments from this fund shall be made, unless agreed to by council and the executive committee, for any shut down ordered by the civil or military authorities or for any absences resulting from a vote, decision, or action by or disability of the employees themselves individually or collectively, or for any loss of time on account of destruction of any portion of the company's property by fire. In case of unemployment resulting from lightning, earthquake, windstorm, or other act of nature, payments may be suspended or reduced by decision of the unemployment fund committee.

In case State or national legislation is passed relieving to any extent the distress due to unemployment, these rules shall be amended prior to making any employee benefit payments so that there is no duplication of benefits.

Payments shall be made weekly, on regular company pay days, but 5 days must be allowed for acceptance of registrations by committee so that first payment will become due the first Friday after this period. Payments shall accrue from day of lay-off, reduction of hours, or transfer.

Payments shall be made according to schedule in following paragraph, but if at any time the fund is exhausted all payments shall automatically cease.

EXTENT TO WHICH EMPLOYEES SHALL BENEFIT

The length of time employees are entitled to share in this fund shall be governed by continuous length of service according to the following plan:

Length of service:	Weeks of compensation
3 months.....	3
1 year.....	5
2 years.....	10
3 years.....	15
4 years.....	20
5 years and over.....	26

The years of continuous length of service of an employee previously laid off on account of lack of work shall be considered as being the sum of the years of his present term of employment and those in the periods preceding such lay-offs. Any period during which employees enter military service in time of national strife and return to the employ of this company thereafter shall be considered as part of the employees' continuous length of service.

The weekly amount of benefits which an employee shall receive will be a certain percentage, as hereafter specified, of his or her wages for the normal working week which is now 44 hours a week, excluding on-time bonus.

IN CASE OF LAY OFF

Payments from this fund to employees laid off shall be: (1) to employees with dependents, 75 percent; and (2) to employees without dependents, 50 percent of their wages or salary for the normal working week.

Employees must register for benefits on form designated by committee and must report three times a week to person authorized by the committee stating what efforts he or she has made to secure work. If the committee is convinced that an individual is not making every effort to secure work, payments to him or her from this fund shall cease. Any individual who makes a false statement of fact either in regard to his or her efforts to secure work, the status of his or her outside employment or in regard to dependents upon him or her, shall forfeit his or her right to reemployment and to receive further benefits from the fund.

When employment is found paying as much or more than the amount which would be received under this plan, payments from the fund shall automatically cease. An individual taking a position paying less than would be received from the fund will be paid the difference for the length of time due. If another job is accepted which proves unsatisfactory, employee may have case reviewed in order to again receive benefits which would have been paid had unsatisfactory position not been accepted.

UNEMPLOYMENT INSURANCE

IN CASE OF REDUCTION OF HOURS

When hours are reduced below the normal working week, payments shall be made from this fund to employees with dependents 75 percent, and to employees without dependents 50 percent, of the time lost for the period due employee according to length of service plan. These payments or the time for which they are paid shall in nowise debar such employee from receiving full unemployment benefits if he or she is subsequently laid off.

Employees, to receive benefits for reduced hours, must register on form designated by committee and will forfeit all rights to future benefits if any false statement of fact is made regarding dependents.

IN CASE OF TRANSFER AT LOWER RATE

When an employee is transferred to other work at a loss of earnings, he or she shall be entitled to the same percentage of the difference between earnings in the two jobs as paid in the case of a reduction of hours and for the same length of time.

An employee refusing to accept what the committee considers an acceptable transfer shall forfeit all rights to benefits from this fund.

Payments from this fund in case of transfer shall in nowise debar such employee from receiving full unemployment benefits if he or she is subsequently laid off.

STATE OF FUND

The unemployment committee shall report the state of this fund to council and executive committee monthly when it is used actively in payment of benefits, but otherwise yearly at the annual meeting of the cooperative association.

AMENDMENTS

These articles may be amended at any time by the committee subject to the approval of Council and the executive committee.

AGREEMENT OF TEMPORARY EMPLOYMENT

Date

In consideration of my acceptance of temporary employment with the Leeds & Northrup Co., I hereby waive all rights to share in the unemployment fund of said company.

It is understood that this waiver of rights in the unemployment fund is null and void if written agreement is reached between the aforementioned company and myself whereby the temporary restriction of said employment is removed.

(SEAL)

Witness

(For reverse side of this card see above)

Name	Dept.	Check No.
------	-------	-----------

Request for benefits on account of:
 Lay-off ☐ Transfer ☐ Reduction of hours ☐ Discharge ☐

Date of employment

Number of persons entirely dependent on applicant's earnings.....
 Number of persons partially dependent on applicant's earnings.....
 For those partially dependent, \$..... per week is contributed.

RELATIONSHIP OF DEPENDENTS

	Age		Age

I hereby apply for unemployment benefits and declare the above information correct.

Signature of applicant

Date of application

153

Benefits granted at % For weeks. From..... (Date).....

Signed by committee: 1..... 2.....
3..... 4..... 5.....

[illegible]

LEEDS & NORTHRUP Co.

1. A preliminary analysis of individual benefit sheets and cards shows that in the 10-year first cycle ended May 31, 1932, 864 different individuals received part-time and/or lay-off benefits totaling \$87,205.82, or an average of \$101 per person. All of this was disbursed in the period January 1, 1930, to May 31, 1932, except for \$505.29 full lay-off benefits paid to 6 persons in 1924, 1925, and 1927. (See mimeographed summary of July 1932.) The majority of payments were small because early lay-offs involved mainly those workers of shorter service. Older employees receiving both part-time and lay-off benefits, however, received as much as \$965, \$941, \$788, \$668, etc.

2. Of these 864 persons, 375 received benefits for part-time only, 203 for lay-off only, and 226 received benefits on both counts as follows:

For part-time only:	
Still on production at July 1, 1932.....	275
Resigned, or transferred to salary (net).....	28
Received no benefits when subsequently laid off because they found work immediately, did not apply, or because the fund had run out.....	72

For lay-off only:		570
Full benefits.....	118	
Partial benefits.....	145	
		1 263

For both:		
All part-time and all lay-off benefit	13	
All part-time and partial lay-off benefit	213	
		226
		804

¹ An additional 41 persons who had received no part-time benefits were laid off in this period, but received no lay-off benefits for the reasons given.

3. The extent to which the fund met its statistical liability is indicated by the following:

Total statistical liability:

For part-time benefits.....		\$35, 138. 50
For lay-off benefits.....	\$122, 141. 99	
Plus special extra allowances.....	205. 31	
		122, 347. 80
		<u>167, 485. 89</u>

Benefits actually paid:

For part-time:		
Exhausted on 1 day per week....	\$20, 011. 00	
Exhausted on 2 days per week....	11, 833. 00	
Exhausted on over 2 days per week.....	2, 694. 53	
		35, 138. 59
For lay-off.....		51, 942. 46
		\$ 87, 081. 05

Statistical benefits not paid on account of:

Clerical error (1).....		1. 98
No application (10).....		1, 369. 11
Found work (133).....		14, 358. 02
Reduced rate after Nov. 11, 1931.....	414 {	\$33, 476. 86
Fund exhausted.....		\$21, 197. 97
		70, 404. 84
		<u>157, 485. 89</u>

The foregoing protection was provided from direct company contributions aggregating hardly six tenths of 1 percent of total pay roll during the 10-year cycle (plus interest). Any revision should naturally wait on thorough analysis of the whole picture, but one can see even from this how much more protection, particularly for older workers, would have resulted from increasing the total (not rate) of company contributions, adding employee contributions, and conserving that fund through a waiting period, less liberal benefits for light short time, etc.

R. F. EVANS.

TABLE 1.—Leeds & Northrup Co., Philadelphia, Pa., unemployment benefit fund

Calendar year	Contributions by company	Interest earned and paid	Benefits paid ¹	Administration costs	Balance in fund at Dec. 31 ²
1923.....	\$15, 853. 26	\$307. 14		\$75. 00	\$16, 085. 40
1924.....	8, 635. 19	1, 157. 76	\$163. 86	91. 89	23, 622. 60
1925.....	6, 607. 95	1, 484. 63	56. 31	102. 12	33, 356. 75
1926.....	7, 089. 13	2, 050. 19		90. 94	42, 405. 13
1927.....	782. 61	2, 324. 77	285. 12	88. 09	45, 141. 30
1928.....	7, 521. 75	2, 576. 24		53. 70	55, 185. 59
1929.....	21, 609. 00	3, 370. 95		377. 86	79, 787. 68
1930.....		5, 199. 49	23, 607. 89	411. 57	\$ 60, 967. 71
1931.....		3, 107. 22	40, 537. 97	1, 138. 90	\$ 22, 398. 06
1932 (6 months).....	6, 895. 00	862. 42	22, 614. 67	555. 93	\$ 6, 984. 88
Total.....	74, 793. 89	22, 442. 61	87, 265. 82	2, 986. 00	

¹ Bank date.

² Cash basis.

³ Contributions retroactive as of June 1, 1922.

⁴ Includes \$18.50 outstanding loans to employees.

⁵ Includes \$5,212.75 employee loans being taken over by company.

⁶ Includes \$5,871.75 employee loans taken over by company (and \$113.13 cash).

¹ Accounting department figure is \$87,265.82 as in (1). This summary has been double-checked with the cards, so the shortage probably occurred in posting to those secondary records.

² These two figures for all practical purposes should be read together. Strictly the first item was charged with the cut on all unexpired balances of benefit liability incurred after Nov. 11, 1931; the second, with only the part remaining unpaid at the lower rate, when the fund ran out.

TABLE 2.—Leeds & Northrup Co., Philadelphia, Pa., unemployment benefit fund

Calendar year	Average number on pay roll ¹	Total pay roll	Average number covered by the plan ¹	Pay roll of persons covered	Number received benefit	Total benefits paid
1922 ¹	298	\$264,730	254	\$188,509		
1923	380	570,721	291	426,496		
1924	407	633,945	337	464,925	43	\$163.86
1925	445	737,476	346	536,650	1	56.31
1926	544	952,308	411	632,668		
1927	596	1,052,946	470	775,281	42	285.12
1928	633	1,238,312	490	898,750		
1929	1,001	1,795,490	728	1,254,313		
1930	1,114	1,893,384	927	1,315,847	661	23,007.89
1931	965	1,890,004	828	1,076,732	482	40,537.97
1932 (6 months)	603	413,745	531	291,013	280	22,614.67
		11,201,061		7,902,193		87,265.82

¹ Average of monthly averages.² Average of persons eligible last week in each month.³ Seven months; fund established as of June 1, 1922.⁴ For lay-off only.⁵ Includes 559 receiving \$17,690.82 benefits for reduction of hours, or of rate through occasional transfer. Balance to 104 on account lay off. Some received benefits on both accounts.⁶ Includes 264 receiving \$17,407.35 benefits for reduction of hours, or rate through occasional transfer. Balance to 278 account of lay off. Some received benefits on both accounts.⁷ Includes 10 persons receiving \$70.35 benefits for reduction of rate through transfer. Balance to 270 on account lay off. One received benefits on both accounts.

TABLE 3.—Leeds & Northrup Co., Philadelphia, Pa., unemployment benefit fund

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932
Total number employed at Jan. 1	233	332	408	387	487	591	591	752	1,145	1,055	719
Average number on pay roll, monthly:											
January	228	339	407	392	489	595	591	777	1,097	1,057	716
February	219	349	408	416	499	596	598	814	1,081	1,051	630
March	222	357	409	432	517	603	611	851	1,085	1,061	590
April	227	364	408	431	527	603	619	896	1,111	1,066	585
May	241	375	412	431	535	600	622	966	1,108	1,062	584
June	252	389	415	438	545	598	634	1,033	1,138	987	512
July	275	410	425	456	573	602	600	1,086	1,176	971	
August	281	396	417	460	566	598	666	1,087	1,171	969	
September	297	395	408	419	551	592	674	1,095	1,157	943	
October	314	395	400	469	569	588	698	1,119	1,091	916	
November	339	403	391	481	578	587	717	1,111	1,074	775	
December	336	406	389	494	593	591	742	1,117	1,059	718	
Total yearly average (average of 12 monthly averages)	299	380	407	443	544	596	653	1,001	1,114	965	703

¹ 6-month average.

TABLE 4.—Leeds & Northrup Co., Philadelphia, Pa., unemployment benefit fund

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932
Number covered last week in—											
January	195	260	333	333	379	466	461	852	925	897	630
February	175	254	322	321	395	455	472	606	931	885	643
March	185	272	340	330	399	482	478	628	935	892	620
April	187	276	313	333	392	498	484	623	900	886	616
May	193	286	312	352	401	501	482	638	922	896	515
June	195	289	326	335	402	502	466	696	901	849	461
July	223	311	345	345	421	488	495	711	923	839	
August	251	312	339	362	436	481	510	802	910	831	
September	253	296	337	317	417	468	520	822	961	834	
October	266	299	311	352	420	499	510	860	933	806	
November	291	306	324	352	417	461	539	851	915	690	
December	288	326	332	377	416	438	546	909	905	635	
Average	226	291	337	346	411	479	499	728	927	828	731

¹ 6 months.

Mr. LEWIS. I offer for the record the following letter at this time:

NATIONAL CATHOLIC WELFARE CONFERENCE,
March 22, 1934.

Hon. DAVID J. LEWIS,
Committee on Ways and Means, House of Representatives,
Washington, D.C.

DEAR MR. LEWIS: H.R. 7659, a bill referred to your subcommittee of the Committee on Ways and Means, has for its purpose to raise revenue by levying an excise tax upon employers.

The bill exempts (p. 2, lines 1-4) governments and their instrumentalities from the proposed tax. It further exempts (p. 3) certain types of employment.

The bill does not exempt employment of a nonprofessional character in the service of associations or institutions organized for educational, charitable, or religious purposes and operated not for profit. Under the Federal statutes and under the Constitutions and laws of the several States, these institutions are generally exempted from taxation, this exemption being granted in recognition of the public character of the service rendered by the exempt institutions.

The National Catholic Welfare Conference respectfully brings this matter to the attention of your committee, requesting that in reporting on the bill you recommend that the bill be amended so that to the types of employment not included for the purpose of this act as listed on page 3 of this bill, there be added a further classification to exclude the nonprofessional as well as the professional type of employment in the service of any institution organized exclusively for educational, charitable, or religious purposes and operated not for profit.

Thanking you for your attention in this matter, I have the honor to be

Yours very respectfully,

MICHAEL J. READY,
Assistant General Secretary.

Mr. LEWIS. The committee will resume tomorrow morning at 10 o'clock.

(Whereupon, at 12 m., the committee adjourned until tomorrow, Saturday, Mar. 24, 1934, at 10 a.m.)

LETTER AND STATEMENT SUBMITTED BY ERNEST G. DRAPER, VICE PRESIDENT,
THE HILLS BROS. CO., NEW YORK CITY

THE HILL BROS. CO.,
New York, March 21, 1934.

Hon. DAVID J. LEWIS,
House of Representatives, Washington, D.C.

MY DEAR CONGRESSMAN LEWIS: Enclosed please find copy of a statement which I should like to present to your committee in reference to the Wagner-Lewis unemployment insurance bill.

This statement outlines my views on the matter as clearly as I can present them in brief form and I shall be perfectly willing to have this statement read at the hearing just as though it were presented by me personally.

Thanking you for giving me the opportunity of submitting this statement and hoping that your bill will soon be enacted into law, believe me,

Yours sincerely,

ERNEST G. DRAPER,
Vice President.

(The statement follows:)

STATEMENT BY ERNEST G. DRAPER, VICE PRESIDENT, THE HILLS BROS. CO., NEW YORK CITY

General adoption by the States of systems of unemployment compensation will give this country a more efficient, more adequate, and more equitable method of providing for the unemployed worker. Unemployment compensation will serve also to relieve the taxpayer, because it will make compensation for unemployment a cost of production entering into the price of the product just as the cost of accident compensation now does under existing workmen's accident compensation laws. Moreover, like accident compensation which has stimulated the movement to prevent accidents, unemployment compensation will help to focus the attention of management, in good times as well as in bad, upon the problems of providing steadier employment.

Through the National Industrial Recovery Act, Congress has inaugurated a program to eliminate destructive business competition which hinders business recovery. By the enactment of the Lewis bill, H.R. 7659, it should, I believe, likewise remove the obstacle of "interstate competition" which now serves to hinder the adoption of constructive State legislation for permanent systematic provision against unemployment.

I believe that Representative Lewis' bill to encourage the general adoption of State unemployment compensation legislation should be enacted at this session of Congress. Sound and practical measures for State legislation, based upon careful official investigations by the leading States and by the United States Senate, are ready for early enactment at the State capitols. It is highly important that these measures be put into effect at the earliest possible moment so that employers will have an opportunity to make the necessary adjustments during the period of expanding employment. Enactment of the Lewis bill at this session will provide opportunity for prompt action by most of the States in 1935. It would be most unfortunate if Congress, by postponing enactment of the Lewis bill, should cause the adoption of unemployment compensation legislation to be postponed in a majority of the States until their legislatures meet again in 1937.

UNEMPLOYMENT INSURANCE

SATURDAY, MARCH 24, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE
ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. David J. Lewis (chairman) presiding.

Mr. LEWIS. We will continue the hearing on H.R. 7659, although some of the members of the subcommittee are not able to be here this morning on account of illness.

It is the function of the subcommittee to collect this information and get it in form, available for the whole committee, for other Members of Congress and the public who are interested.

We will hear first this morning, Mrs. William Kittle, of Washington, D.C.

Mrs. Kittle, will you give your full name, and state your relation to the subject matter under discussion.

STATEMENT OF MRS. WILLIAM KITTLE, WASHINGTON, D.C., REPRESENTING THE NATIONAL CONSUMERS' LEAGUE

Mrs. KITTLE. Mr. Chairman, my name is Mrs. William Kittle, of Washington, D.C. I represent the National Consumers' League, and as such representative I speak for a group of consumers who are organized, and have been organized for 35 years. Their specific interest is that of the conditions under which women particularly work, and their interest also includes men and children.

I have here a statement of the position of the Consumers' League on the Wagner-Lewis bill, which I will file with the committee. In that statement they give their reasons why they are in favor of this particular form of legislation.

Since 1922 they have gone on record for some sort of reserves or insurance that would take care of this problem, and they feel that in spite of the fact that for 10 years we have been in a transitional period in connection with our industrial problems, and that unemployment has been a staring problem for that number of years, yet no legislation has been brought forward to meet that question, as has been done in the case of other problems in connection with labor.

Wisconsin is the only State in the Union, so far, that has taken any step toward legislative enactment to provide for the remedying of this question.

We believe the Lewis-Wagner bill possesses a peculiar and unique phase in inducing the States to do something about this problem.

For that reason we are very much in favor of this particular bill, and because of the immediate need of such legislation we plead for its immediate passage.

(The statement filed by Mrs. Kittle is as follows:)

The National Consumers' League is heartily in favor of the Wagner-Lewis bill and recommends its speedy passage. The league which has advocated legislation for unemployment insurance or reserves since 1922 welcomes this much needed stimulus to State action.

By providing special tax exemption for employers who contribute to a State fund which conforms to adequate standards, the proposed act encourages each State to initiate its own system of unemployment benefits creating machinery to suit its local needs. Constitutional difficulties are avoided and greater flexibility gained by leaving each State free to experiment with its own choice of legislation so long as this complies with certain general requirements. To eliminate the fear of competitive disadvantage which has delayed the progress of State unemployment insurance laws, the Wagner-Lewis bill offers positive and tangible inducement to such legislation.

After four years of bitter experience with prolonged unemployment and widespread public and private relief, American citizens have come to realize the need for definite plans and for readily accessible funds to meet a period of depression. We no longer believe that idleness is a man's own fault. We do not believe that the worker should be forced to carry so large a share of the burden of industrial instability. We have learned that a shrinkage in the purchasing power of the wage-earning millions means the loss of a vital market for the producers' goods.

No thinking person expects an unemployment insurance system to solve the whole problem or to be the sole remedy for an international depression such as we have been experiencing these last years. But an adequate fund will relieve suffering; it will halt the avalanche which turns a slack period into a major crash; and it will encourage employers to stabilize their industries. Now is the time to push through such measures before returning prosperity and our native American optimism deadens the memory of dark days.

In spite of urgent need, legislation for unemployment insurance has lagged behind: As yet only one State, Wisconsin, has passed such a law—because each State is afraid to take the first step, is afraid to place an additional burden on industry, is afraid to drive business out of the community. The Wagner-Lewis bill is the answer to these fears and the incentive to prompt action on this major problem. The National Consumers' League urges the Ways and Means Committee of the House of Representatives to facilitate its immediate passage.

Mr. LEWIS. The next witness we will hear this morning is Miss Elizabeth Eastman.

Will you give your full name and residence, and your relation to the subject matter under discussion, Miss Eastman?

STATEMENT OF MISS ELIZABETH EASTMAN, WASHINGTON, D.C., REPRESENTING THE NATIONAL YOUNG WOMEN'S CHRISTIAN ASSOCIATION

Miss EASTMAN. My name is Miss Elizabeth Eastman, of Washington, D.C. I represent the National Young Women's Christian Association, Mr. Chairman.

Since 1911 the Young Women's Christian Association has been concerned with the development of public opinion and the use of legislation in improving conditions which affect women and girls. Their vast experience with the business and industrial women of the country has given them first-hand knowledge of the extent and effect of unemployment among this group.

At their Hot Springs convention in 1922 they began to study the problem of unemployment and its solution, and ever since that date, in local clubs and board meetings, in international institutes, and industrial and business women's meetings, the subject has been one

of major interest. They have also actively supported such legislative measures as would alleviate the unemployment situation locally and nationally and have brought pressure to bear on individual State senators and representatives.

Many members within the Young Women's Christian Association have been unemployed for months at a time during the last 4 years. Some of them have known what it is to feel hunger. Thousands have been the sole support of unemployed fathers, brothers, and sisters. All of them have known insecurity. Studying unemployment-insurance schemes of other countries, they have become convinced of the economic soundness of making provision through unemployment insurance to meet the hardship of enforced idleness.

They realize the enormous value it would be to manufacturers and retailers of goods to be sold, if it were known that a certain amount of money was being regularly paid to unemployed persons, and that this money would immediately find its way to shops and stores to buy the necessities of life. And because they know that under the existing economic system there are bound to be recurring spells of severe unemployment, even should the present depression pass, the membership has been behind efforts to obtain unemployment insurance laws in practically all States working for such measures. In certain legislatures business and industrial women have been represented at hearings on unemployment insurance.

The Young Women's Christian Association knows the difficulty and pitfalls of interstate competition. They welcome a scheme which acts as an inducement for all States to enact unemployment insurance and they therefore heartily endorse the Wagner-Lewis bill.

Mr. LEWIS. I want to get your comment, Miss Eastman, on some unemployment figures reported for November 1933, as the result of a survey of unemployment in the city of Buffalo, N.Y. I shall insert in the record the pertinent part of that report.

The statement shows a disparity in the processes of dis-unemployment, if I may use that expression, between the two sexes.

For example, in 1929 the percentage of men unemployed in Buffalo was 6.2; in 1930 it was 17.2; in 1931 it was 24.3; in 1932 it was 32.6; and in 1933 it was 25.1. That gives the sequence for the men.

For the like years with reference to women, the percentages of unemployment are: For 1929, 3.5; for 1930, 14.6; for 1931, 21.1; for 1932, 25.4; and for 1933, 56.2.

Whereas in 1929 the percentage of unemployment for women was 3.5 in the city of Buffalo, the percentage for men for that year was 6.2, showing that the percentage for women was a little more than half of that for men.

In 1933 the unemployment factor for women was 56.2, as against 25.1 for men, or the figure for women was twice as large as that for men.

Would you have the probable explanation of that disparity in mind?

Miss EASTMAN. I am afraid I have not, Mr. Chairman. I am not familiar with those facts and figures. That is a survey of the city of Buffalo?

Mr. LEWIS. Yes. Apparently, in the return to employment and recovery, beginning in 1933, a very much larger proportion of men found jobs than of women.

Miss EASTMAN. I am sorry I cannot tell you about that.

(The statement referred to by Mr. Lewis is as follows:)

EMPLOYMENT CONDITIONS AND UNEMPLOYMENT RELIEF

STUDY OF UNEMPLOYMENT IN BUFFALO, N.Y., IN 1933¹

Preliminary results of the fifth annual study of unemployment in selected areas of Buffalo, N.Y., were announced December 10, 1933, by the New York State industrial commissioner. These data indicate that in November 1933, 282 workers per thousand were unemployed as compared with 312 per thousand in 1932. Since studies of a like nature for the same areas have been made each November beginning with 1929, comparable data are now available for the past 5 years.² This work is sponsored by the Buffalo Foundation, in cooperation with the State department of labor. Students of the State teachers' college at Buffalo and of the University of Buffalo made about 10,000 house-to-house visits to enumerate the unemployed.

In November 1933, of the 15,729 usually employed persons able and willing to work, 9,157 or 58.2 percent were employed full time, 4,428 or 28.2 percent were unemployed, and 2,144 or 13.6 percent were employed part time.

Summarizing the data for men and women able and willing to work in 1933 shows that 62.7 percent of the men and 16.8 percent of the women were employed full time; 12.2 percent of the men and 27 percent of the women were employed part time; and 25.1 percent of the men and 56.2 percent of the women were unable to find work. The percentage of men fully employed and on part time is approximately 75 percent of all males able and willing to work, in contrast to only 44 percent of the women.

Comparing the results of the five studies of November unemployment, it was found that among persons who were able and willing to work those who could not find employment constituted the following percentages:

Men:	Percent	Women:	Percent
1929-----	6.2	1929-----	3.5
1930-----	17.2	1930-----	14.6
1931-----	24.3	1931-----	21.1
1932-----	32.6	1932-----	25.4
1933-----	25.1	1933-----	56.2

The employment status of men shows a considerable improvement over 1932 but among women unemployment has risen from 25.4 percent in 1932 to 56.2 percent in 1933.

Of men and women able and willing to work, those who were employed part time in November were as follows:

Men:	Percent	Women:	Percent
1929-----	7.1	1929-----	5.4
1930-----	18.6	1930-----	12.2
1931-----	23.2	1931-----	16.3
1932-----	23.4	1932-----	19.0
1933-----	12.2	1933-----	27.0

The proportion of men on part-time employment is only about half that of 1932, but among women part-time employment increased from 19 percent in 1932 to 27 percent in 1933.

Mr. LEWIS. We will now have a statement by Mr. Walter West.

Mr. West, will you give your full name and state your relation to the subject matter under discussion?

STATEMENT OF WALTER WEST, SECRETARY AMERICAN ASSOCIATION OF SOCIAL WORKERS, 130 EAST TWENTY-SECOND STREET, NEW YORK, N.Y.

Mr. WEST. My name is Walter West; I am the secretary of the American Association of Social Workers.

Mr. LEWIS. With offices where?

¹ New York. Department of Labor. Division of Statistics and Information. Press release, Dec. 10, 1933.

² For data regarding these studies see Monthly Labor Review, December 1929 (p. 192), December 1930 (p. 63), February 1932 (p. 262), and January 1933 (p. 77).

Mr. WEST. With offices in New York City, at 130 East Twenty-second Street.

This is an organization of about 8,000 social workers who qualified with certain required experience and professional education for their jobs, employed in public and private agencies throughout the country.

They have, through their various chapters, and finally through the national association, given what for them is a very rare thing, an endorsement of the Wagner-Lewis bill. In other words, we are not a political organization and we do not ordinarily deal very much with legislation.

But in the case of this legislation, it seems so important to the social workers who have had such direct relationship with relief problems in the last few years that we have felt that in this case certainly every effort that can possibly be made to establish a better wage should be made, and that a better method to deal with those who are thrown out of employment through no fault of their own must be discovered than that of relief, and the only possible legislation in this country which can be carried out and encouraged through the efforts of the Federal Government in a broad way is this proposed in the bill under discussion.

I think the most impressive lesson, certainly to those who have been at all close to the people who have been out of employment, that is to be obtained from this whole depression is the terrific insecurity that is being left in the minds and the hearts of the people of this country about all the things that they thought of as civic virtues in the past, like thrift, home-owning, good hard labor, and everything else.

We have always assumed in this country that those were the things it paid to do.

I think in the last few years a great many millions of people have been pretty badly discouraged as to whether those really are the civic virtues, because they do not get us anywhere.

Mr. LEWIS. You mean that experiences like this strike at the very best of human virtues themselves?

Mr. WEST. I do. If I can elaborate on that a bit, I would say you have literally hundreds of thousands of young men who learn a trade, and they have absorbed the current thinking about the way to progress in life, and so they work hard on their jobs. They try to win their promotions through their diligence and their application.

Their whole sense of workmanship is involved. They get married and begin to buy homes on the installment plan, as they buy other things on the installment plan, and suddenly, through something which seems entirely outside of their control, and is outside of their control, their whole world comes tumbling down over their ears.

That is true of young men and young women, and it is also true of older men and older women. It is true of all of the 14 or 15 million people who have been out of work.

As it happens in this country, the only way we have of taking care of any situation like that, for the people who are thrown out of work, is to force them to wait until they have absolutely nothing left, and then begin to pay them so much a week if they come and apply for it.

The only attempt to meet the situation in any other way has been through the Civil Works Administration, and as it is clearly seen, that was only applicable to those who were not already on relief. I

mean, it was a new situation only in the case of those who were not already on relief, where there was not what we call means test.

Insofar as they have been given work relief, they have already gone over from the means test, have already had to prove they had nothing on which to exist. Then they could get their work relief.

I am the last person to say we should not have had relief, or that we should not have had the C.W.A., or work relief.

We have been doing all the urging we could, in lieu of anything like what is provided by the Wagner-Lewis bill, to provide adequate relief for those who are unemployed. That has been our one option in this country up to now. That is the reason why it seems so terribly important to us that at this time we should proceed, while it is possible, to provide a more humane, a more economically sound basis for taking care of those who are thrown out of work.

That applies not only to a depression like this, but that is the most dramatic way of presenting it.

I venture to say that the most unsocial influence in America, even during periods of so-called prosperity, is the lack of security with respect to employment for a considerable part of the population. The thing that has probably done more to provoke unsocial action than any other social phenomenon is the uncertainty with respect to employment.

Mr. Lewis. Mr. West, it was stated here yesterday by a man of large experience with this subject, Mr. Swope, that a two-party or three-party arrangement would be preferable, and that workers in a two-party arrangement might make a contribution to the fund such as employers are required to make, the benefits to be extended merely for a longer period, or a shorter period, and with perhaps a larger benefit per week. What would your view be as to that?

Mr. West. I think, if I may, I would like to answer two questions that I recognize there. First, I should like to say, as to where the contribution comes from, as to that part of the question, I do not see any reason why it is not a proper charge on industry in the same way that wages are a charge on industry. It is a part of the total business of running an industry, in the same way as wages. You cannot take wages out of people; you have to take them out of the total of industry, in the same way as you take the reserve funds.

You do not make the employees contribute to the reserve funds which are drawn on when you want to pay dividends. It seems to me it is one of the proper charges on industry to provide a reserve for the time when you cannot employ all the regular workers.

On the second point, I would like to say that in giving its endorsement to this bill our association has made the reservation that it wished an increase in the minimum benefits. It is not that we recognize that you are setting a maximum. On the other hand, we are fearful that it might be that your setting of the figure of \$7-a-week benefit in section 3 (b) would be possibly construed as adequate as the basis of a standard set by the States when they pass their legislation.

We have had very definite experience, and I am sure I can assure you to the effect that \$7 a week would be held to be totally inadequate as a benefit basis. I am sure we do not need to argue that point.

Mr. Lewis. Have you some statistical experience? That would be valuable information.

Mr. WEST. I can simply say that the average relief at the present time per family is approximately \$20 a week; it approaches \$20 a week.

Mr. LEWIS. Are you speaking of the cities?

Mr. WEST. I am wrong, Mr. Chairman; that figure for average relief is on the basis of a month. But this average relief is, you understand, a supplemental thing. Every family does not stay on relief a whole month.

Mr. LEWIS. What does it come to per month?

Mr. WEST. It comes to about \$20 a month. If you divide the total amount of relief by the total number of families, it comes to about that much a month.

Mr. LEWIS. Not \$80?

Mr. WEST. No; not \$80 a month. But the average basis for the average family of five, if you were allowing minimum relief, the average for every family would be nearly \$20 a week, on a ratio of a family of five.

Of course, those figures vary slightly at different times because of the different costs of commodities. But on the whole, that represents about the basis of the budget figures.

But \$7 a week for the average worker would be quite impossible.

Also, we would wish that the period of the benefits could be extended.

There is only one other thing I might say, Mr. Chairman, and that is that while we recognize that the passage of this legislation by the Federal Government, and the consequent passage of unemployment insurance acts in each of the 48 States, which we would hope for at a very early date, is very desirable, there would be, of course, substitute insurance benefits for the relief that is now being given. We recognize that because we realize that the workers who are not being employed at this time would not be qualified under the various insurance acts.

However, we would like to make it clear that there is a great deal of unemployment, that the employment vacillates. There are a good many people coming onto the relief rolls right along who would be benefited by this type of legislation.

Then, of course, what we are really anxious for is to have that develop so that relief will not be the American way of taking care of unemployment. It probably is the worst thing that America is characterized by.

I think that is all I have to present, Mr. Chairman.

Mr. LEWIS. We thank you for your statement.

Mrs. KITTLE. Mr. Chairman, Miss Borchardt is ill and she wished permission to file a statement, representing the National Federation of Teachers.

Mr. LEWIS. Without objection, she may file such a statement with the committee.

Are any of the following persons present?

Mrs. August Belmont, New York City, Association for Improving the Condition of the Poor.

Prof. Sumner H. Slichter, Boston, Mass., Harvard Business School.

Rabbi A. H. Silver, Cleveland, Ohio, The Temple.

Dr. I. M. Rubinow, New Haven, Conn., B'nai B'rith.

Dr. Edwin S. Todd, Oxford, Ohio, Miami University.

Royal Meeker, New Haven, Conn., Index Number Institute.

Dr. Stanley King, Amherst, Mass., Amherst College.

Stanley B. Mathewson, Springfield, Ohio, Mathewson & Co.

Prof. W. M. Leiserson, Washington, D.C., Petroleum Labor Policy Board.

Arthur Altmeyer, Madison, Wis., secretary, Industrial Commission of Wisconsin.

Lincoln Filene, Boston, Mass., William Filene Son's Co.

Miss Elizabeth S. Magee, Cleveland, Ohio, The Consumers' League of Ohio.

(None of the above persons responded.)

Mr. LEWIS. I have been told that Mr. Altmeyer is on his way and we will hear him when he arrives.

STATEMENT OF ARTHUR J. ALTMAYER, SECRETARY INDUSTRIAL COMMISSION OF WISCONSIN, MADISON, WIS.

Mr. LEWIS. Mr. Altmeyer, we shall be glad to hear you on this bill.

Mr. ALTMAYER. My name is A. J. Altmeyer. I am secretary of the Wisconsin Industrial Commission, on leave of absence at the present time and serving as chief of the labor branch of the compliance division of the N.R.A.

Of course, we are very much interested—when I say “we”, I mean Wisconsin and the industrial commission which has charge of the administration of the Wisconsin unemployment insurance act. We are very much interested in the passage of the so-called “Wagner-Lewis” bill, because our act will go into effect on July 1 of this year and employers in Wisconsin have made the argument that they are placed at a competitive disadvantage due to the fact that they are required to build up unemployment reserves and the employers in other States are not.

The rate of contribution in Wisconsin, under our act, is 2 percent until the employer builds up a reserve of \$55 per employee, and then it is automatically reduced to 1 percent of the pay roll until the employer has built up a reserve of \$75 per employee.

Mr. LEWIS. Or until the \$55 falls to \$40, or something of that sort?

Mr. ALTMAYER. No. As I say, 2 percent until the reserve is \$55 per employee and thereafter 1 percent until the reserve is \$75 per employee. Then, of course, if the reserve falls down below \$55 again, because of the payment of benefits, the employer must resume payment into the fund at the rate of 2 percent.

Mr. COOPER. Just a question there, if I may. It is 2 percent until the reserve reaches \$55 per employee?

Mr. ALTMAYER. Yes.

Mr. COOPER. Then it drops to 1 percent until the reserve fund equals \$75 per employee?

Mr. ALTMAYER. Yes.

Mr. COOPER. Does it continue at that figure—at 1 percent?

Mr. ALTMAYER. It stops when the reserve is \$75 per employee. As long as the employer can stabilize his employment, in other words, and keep his reserve at \$75 per employee, he does not need to make any further contributions to his plant reserve fund under the Wisconsin act. In other words, the Wisconsin act offers the maximum stimulus to stabilization of employment.

Mr. Chairman, I would like to make just two points, if I may, because I know that all of the general principles have already been fully adduced before the committee.

I would like to suggest that the 2-percent contribution in the Wisconsin law not be taken as any criterion of what the rate should be in the Wagner-Lewis bill, because we recognize fully that our Wisconsin law is a very meager beginning. The benefits are very low and accordingly the contribution rate of 2 percent is low.

Mr. LEWIS. Are they as high as those provided in this bill?

Mr. ALTMAYER. No. We would have to modify several of the provisions of our law to qualify under this bill.

Mr. LEWIS. Can you be concrete and give us any example?

Mr. ALTMAYER. Yes, sir.

Mr. LEWIS. There is a minimum of \$7 a week here. What is the Wisconsin provision?

Mr. ALTMAYER. The Wisconsin minimum is \$5. So we would have to revamp the minimum rate. Likewise, the maximum number of weeks' benefits is 10 per year, whereas under your bill at least some of the employees must receive 15 weeks' benefits per year. So we would have to revamp that.

There are several features like that that we would have to revamp under our law in order to qualify under the Wagner-Lewis bill. And they should be revamped. I am not suggesting that the Wagner-Lewis bill be changed, I am suggesting that our act will have to be changed.

For that reason the 2-percent contribution under the Wisconsin law should not be taken as a criterion of what the rate should be under the Wagner-Lewis bill. I think it should be considerably higher.

Furthermore, I want to urge that if there are any changes in the Wagner-Lewis bill, the principle be retained that appears on page 6, lines 12 to 24, and page 7, lines 1 to 10; that is, giving employers a credit beyond their actual payments into a reserve fund or an insurance fund proportioned to the amount of saving due to favorable employment experience.

Mr. LEWIS. You mean stabilization?

Mr. ALTMAYER. Stabilization. I am not ready to underwrite the particular wording of that, but I think the idea is good and should be preserved. I would hate to see that cut out. It would, of course, knock in the head plant reserve plans entirely and it would discourage experience rating under the pooled insurance fund.

Mr. LEWIS. Not in a spirit of antagonism, but to clear up a phase of the problem involved: An employer, let us fancy, has been working 6 months of the year. The seasonal character of his marketing operations is such that he can do his work in 6 months a year with 500 employees who are employed 6 months. However, he regularizes and works 12 months, but employs 250 rather than 500. Do you feel that that is a result that ought to be aimed at?

Mr. ALTMAYER. Absolutely because he may have employed his 500 say during the first 6 months of the year and another employer may have been employing 500 during the last 6 months of the year, to make a simple illustration. If they both stabilize they will both be employing the same number, but they will have spread the employment of their respective employees over the entire year.

Mr. LEWIS. I cannot fancy that that would be true in any seasonal marketing situation. One employer who found it convenient to work only while he was marketing in a particular trade probably would have conditions resembling those of any other employer in that trade.

Mr. ALTMAYER. Exactly; that might be true, but there is interchange of employees between one industry and another. It is conceivable that other industries would have seasons that fit in. By fit in, I mean mesh; not be identical, but in another period of the year, and if they both stabilize, you get continuous employment rather than peak employment throughout.

But, even so, even if there were not that, I think it is very important that employees can look forward as long as possible and make their budgeting plans as long in advance as possible. I think it is all to the good.

Mr. LEWIS. They have some feeling of security as to the future.

Mr. ALTMAYER. Yes, sir.

Mr. LEWIS. How about the 250 men who have been dropped entirely in the regularization program? We have improved the case for the other 250, but you push off the raft the 250 in this fanciful illustration that I have given.

Mr. ALTMAYER. I do not think you can make an argument from a hypothetical case, and particularly a hypothetical single instance.

Mr. LEWIS. Of course, we both have the same objective and the same sympathy.

Mr. ALTMAYER. Yes.

Mr. LEWIS. Do not students of this employment subject now feel that unemployment is a chronic condition?

Mr. ALTMAYER. Yes.

Mr. LEWIS. That even when they were making millionaires in a week and multimillionaires in a month, in 1929, there were over 2,000,000 people out of employment; and that when our recovery hope is realized, we will probably have 4,000,000 people out of employment.

Mr. ALTMAYER. Yes.

Mr. LEWIS. Should not any institution of this sort show great concern about the effect of increasing the number of those disinherited workers?

Mr. ALTMAYER. I do not think, Mr. Lewis, they are disinherited. I do not think you can make an argument from a single hypothetical incident. If stabilization accomplishes what we hope it will accomplish, it ought to improve the whole economic fabric so that there will be more employment rather than less employment; because to the extent that people can look ahead and budget their expenditures with some degree of security, they will purchase more. I think that rather than disinherit the workers, as you put it, we will have them come into a richer heritage.

Mr. LEWIS. Then the stabilization and regularization of employment in the trade, desirable of itself, you think would not work any such effects as have been indicated in this fanciful case?

Mr. ALTMAYER. No. I really do not think so. I do not think that can be taken as typical.

Mr. LEWIS. Have you anything else to present, Mr. Altmeyer?

Mr. ALTMAYER. I just wanted to make those two points, that the 2-percent contribution in the Wisconsin law should not be taken as a criterion for the percentage distribution in the Wagner-Lewis bill;

and that the Wagner-Lewis bill ought to preserve the principle of allowing credit to employers who stabilize their employment.

Mr. LEWIS. Mr. Altmeier, what was the application to employments of the Wisconsin act? I mean, what occupations or employments were taken and about how many men are thought to be involved?

Mr. ALTMAYER. Even with the present conditions, there are about 275,000 persons who would be subject to the Wisconsin law.

Mr. LEWIS. Employed and unemployed in Wisconsin?

Mr. ALTMAYER. No; the employed.

Mr. LEWIS. The employed?

Mr. ALTMAYER. Yes. We have certain specific exemptions, like farmers, domestic servants; the chief exemption is of employers who employ less than 10 persons for less than 4 months.

Mr. LEWIS. So that it would apply to a bank that employed more than 10 people?

Mr. ALTMAYER. That is true.

Mr. LEWIS. And wholesale and retail establishments?

Mr. ALTMAYER. Yes.

Mr. LEWIS. How about intrastate traffic on railroads? Have you endeavored to apply it to railway labor within the State of Wisconsin?

Mr. ALTMAYER. I want to look up the actual text, because we have had a lot of discussion on that. I forget just what it is at the moment.

Mr. ELLIOTT. I think you exempted railroads. I think I remember that.

Mr. ALTMAYER. We have this provision; employment by railroads engaged in interstate transportation and employment in logging operations; those employers are specifically exempted. I do not think it needed to have been so broad an exemption, though.

Mr. LEWIS. Is it the railroad that is engaged or the employee?

Mr. ALTMAYER. No; the railroad. I do not think it needed to have been as broad as that.

Mr. LEWIS. It exempted railroad employees where the railroad itself crossed State lines?

Mr. ALTMAYER. Yes.

Mr. LEWIS. Do any of the railroads that you know of have unemployment reserves set up?

Mr. ALTMAYER. Not that I know of. They have their retirement plans.

Mr. LEWIS. Old-age pensions?

Mr. ALTMAYER. Yes.

Mr. LEWIS. They have sick insurance frequently?

Mr. ALTMAYER. Yes.

Mr. LEWIS. How about the Western Union and the Bell Telephone systems?

Mr. ALTMAYER. I do not believe they have any unemployment insurance plan. They have their benefit plans for sickness and accident and retirement and for superannuation and that sort of thing. Very few volunteer plans, as you know, at the present time, have survived the depression. There were only a handful to begin with, and most of them have suspended.

Mr. LEWIS. Some point has been made that, since the reserve fund sought to be set up under this legislation, through the instrumentality of the States, cannot come in time or prove adequate to take care of

unemployment during the present depression, the imposition of the tax itself, whatever it may be, ought to be deferred until normalcy has been restored. In other words, this legislation is intended to have effect after the flood.

Was that argument made in Wisconsin against the adoption of your act which you say goes into effect on the 1st of July this year?

Mr. ALTMAYER. That argument was made, but we think the stronger argument is that when you are just passing out of the depression, that is the finest time in the world to start building up reserves. That was the argument that carried the day.

Mr. LEWIS. Was there much opposition or much expression of desire that the imposition of the tax be delayed beyond July 1, 1934?

Mr. ALTMAYER. There was some, but we have an advisory committee composed of employers and employees in equal number, and they unanimously agreed upon this postponement to July 1, 1934, rather than a 2-year or 4-year proposal that was pending before the legislature.

You see, we originally would have put into effect the law July 1, 1933, but now this 1-year postponement makes it go into effect July 1 of this year.

Mr. LEWIS. The act goes into effect on the 1st of July 1934. Will the tax be applicable to the preceding year or the succeeding year?

Mr. ALTMAYER. The succeeding year.

Mr. LEWIS. It is collected through the ordinary machinery of the State?

Mr. ALTMAYER. Yes.

Mr. LEWIS. With reference to disputes under the act, was jurisdiction by way of appeal or otherwise given your accident compensation commission?

Mr. ALTMAYER. We have what is known as the "Industrial Commission" that administers all of the labor laws, including workmen's compensation, child labor, hours of labor for women, unemployment relief, employment offices, and so forth.

Mr. LEWIS. Then if a claimant for unemployment relief is unsuccessful with the employer, what does he do? Does he go directly to this commission or is there some subordinate official who can take cognizance of the matter in the first place?

Mr. ALTMAYER. We have a string of employment offices scattered throughout the State. We have 10 and we propose to increase the number to approximately 35 and we will have branch offices as well where men may register who are out of employment.

Mr. LEWIS. They have jurisdiction like a magistrate or justice of the peace?

Mr. ALTMAYER. They will have jurisdiction over the so-called uncontested cases, where both the employer and employee agree that benefits are due. If there is any dispute, there will be a local committee equally representative of employers and employees and an impartial chairman named by the Industrial Commission.

Mr. LEWIS. For that particular case?

Mr. ALTMAYER. No; for all contested cases within that district.

Mr. LEWIS. How large is your district?

Mr. ALTMAYER. We have not set up districts yet. You see, for the first year, July 1, 1934 to July 1, 1935, we will build up the fund through this contribution of 2 percent, and actual benefits are not

payable until July 1, 1935, out of the funds being built up during the first year.

Mr. LEWIS. This committee, except for this official, is unpaid, unsalaried?

Mr. ALTMAYER. We have a provision that we may pay a per diem and traveling expenses if we wish, but there is no requirement.

Mr. LEWIS. Then the only salaried person, that you have found necessary to add to the administration of your system in Wisconsin is this official who joins the committee to determine disputes?

Mr. ALTMAYER. So far as the local adjustment of complaints is concerned.

Mr. LEWIS. He is a permanent official?

Mr. ALTMAYER. We are contemplating he will be a permanent official traveling from one place to another and reporting directly back to the industrial commission, in that way bringing about uniformity of interpretation.

Mr. LEWIS. Appeals, of course, lie from the Industrial Commission to your ordinary courts of record just as in regard to compensation cases?

Mr. ALTMAYER. Yes; but only on questions of law, not on questions of fact.

Mr. LEWIS. That is all.

Mr. ALTMAYER. Thank you, Mr. Chairman.

Mr. LEWIS. We appreciate your coming here, Mr. Altmeyer.

Are there any other witnesses present who wish to be heard?

(There was no response.)

Mr. LEWIS. Then the subcommittee will adjourn until Monday morning at 10 o'clock.

(Whereupon the subcommittee adjourned until Monday, Mar. 26, 1934, at 10 a.m.)

UNEMPLOYMENT INSURANCE

MONDAY, MARCH 26, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. David J. Lewis (chairman) presiding.

Mr. LEWIS. The clerk will announce the situation with reference to attendance of members of the subcommittee this morning.

(The clerk announced that Mr. Cooper was unable to attend; that Mr. Cochran was unable to attend; that Mr. Boehne was out of the city; and that Mr. Frear was ill.)

Mr. LEWIS. Ladies and gentlemen, you are here at some considerable expenditure of time and money. May I say that the largest office performed in presenting the matter to the subcommittee would be to have it printed in the hearings so that the whole committee will have an opportunity to study your statements at their leisure. I would suggest under those circumstances that we go on with your presentation this morning, insufficient as the representation of the committee may seem to be. I am sure the country realizes the situation in which Members of Congress find themselves in these very unusual circumstances. Although there is a lack of a quorum, Mr. Reed, Mr. West, and I will be very pleased to hear you, if you elect to proceed under these circumstances.

The first witness on our calendar this morning is Prof. Sumner H. Slichter, of Boston.

STATEMENT OF PROF. SUMNER H. SLICHTER, REPRESENTING HARVARD BUSINESS SCHOOL, BOSTON, MASS.

Mr. LEWIS. Professor, will you state for the record your relationship to the subject matter, your background of experience and study in connection with it?

Professor SLICHTER. Mr. Chairman, I am associated with the Harvard Graduate School of Business Administration. My job is professor of business economics. The study of industrial relations has been my principal occupation for the last 20 years.

Mr. Chairman, permit me to begin by saying that I am in cordial sympathy with the fundamental objectives of the bill. I shall have certain suggestions in regard to the bill. Those suggestions, however, do not imply a lack of sympathy with its purposes.

I shall not undertake to discuss the need for regular and Nation-wide arrangements for relieving unemployment. That is self-evident, and there are others who can speak of that need in far more first-hand terms than I am able to do.

I wish to direct attention to certain of the more strictly economic aspects of the question. In the first place, Mr. Chairman, it seems to me that your bill imposes a dangerously heavy burden upon industry at the present time. I do not believe it is ordinarily appreciated how rapidly industry has been taking on additional burdens during the last 9 months. From July to December of 1933 average hourly earnings in manufacturing increased over 20 percent. It would be very difficult in the history of American industry to find a 6 months' period in which wages advanced faster than during this particular 6 months' period.

Mr. LEWIS. Have you tables to support that statement, Professor?

Professor SLICHTER. The only comparison that need be made would be with the war-time boom. That is the only period when you could find an approximation of 20-percent increase in hourly earnings during 6 months.

Mr. LEWIS. Have you tables to support the 20-percent increase statement?

Professor SLICHTER. Yes.

Mr. LEWIS. Will you insert them in the record at your convenience?

Professor SLICHTER. I have them here, but suppose I just send a note to you, as chairman of the committee, with the figures and the reference?

Mr. LEWIS. If you have them there, you might give them to the reporter at this time.

Professor SLICHTER. This is a condensed table which I have before me which I am afraid the reporter might not interpret properly.

Mr. LEWIS. Then, pursue your own method.

Professor SLICHTER. The actual figures are an increase in hourly earnings in manufacturing from 42.5 cents in July to 55.0 cents in December.

This increase occurred, not during a boom, but during a severe depression; during a time when approximately 4 out of 10 of the larger enterprises in the country were losing money.

The maladjustments produced by this depression have been so deep-seated and so serious that it is reasonable to suppose that recovery will be rather slow and prolonged over a considerable period of time. The recovery will vary in different industries. Some will go ahead more rapidly than others. To slap down on all industries, regardless of their success in achieving recovery, an additional burden of as much as 5 percent on pay rolls would, in my judgment, be exceedingly unwise and would probably retard recovery. In fact, it is my judgment that we have been retarding recovery by pushing up wages as rapidly as we have been doing.

If you go from here to Montreal, you will cross an imaginary line where our laws end and the Canadian laws begin. Our recovery program can be judged perhaps by whether business has been going forward faster on this side of the line than on the other. When I was in Canada about a month ago, Canadian carloadings, which are perhaps the best index of the volume of business, exceeded last year's carloadings by about 30 to 35 percent, varying a little from week to week. In the United States carloadings at that time—it was before comparisons were being made with the bank holiday period of a year ago—were only from 15 to 20 percent above a year ago.

So I would suggest, Mr. Chairman, that the burden be reduced to perhaps 2 percent. That would be inadequate from the standpoint

of a permanent scheme of relief, but in the midst of a depression as severe as this and with every prospect that the recovery will be slow and uneven, I do not think it would be wise to jump suddenly to an ideal system. After all, we are confronted with the problem of absorbing the present unemployed. That is a more immediate problem than the problem of relieving those who become unemployed during the next depression. So, while I am in very strong sympathy with doing something now, I venture to suggest a smaller immediate burden.

In the second place, this bill raises very fundamental questions concerning the best way in which to set up unemployment reserves or unemployment insurance. I have been a strong advocate of action by the State of Massachusetts. On several occasions I have appeared before the General Court of Massachusetts and urged prompt action. But is it desirable to put great pressure upon 48 States to enact legislation within virtually a year or a year and a half? I fear very much that you will obtain some half-baked and ill-advised laws in many States.

Now, there is no reason why the time need be so short. The bill may still be passed in this session and the States given an extra year in which to act. Some of the States, such as Massachusetts, California, and Ohio are undoubtedly prepared to act at once, because they have had the services of able commissions which have investigated the subject matter. Of course, the work of these commissions will be of value to other States. But the friends of unemployment insurance or unemployment reserves must be more interested in getting the thing done right, and I am afraid the shortness of the time would provoke hasty and ill-considered action in some States which have not really gone into the problem. Consequently, I suggest that the effectiveness of the proposed tax be postponed from the taxable year beginning July 1, 1935 to the taxable year beginning July 1, 1936.

In this connection, there rises the question of uniformity or diversity of State legislation. If uniformity or some degree of uniformity can be achieved by interstate compacts, certainly that would be desirable and yet the negotiation of interstate compacts is likely to be a somewhat time-consuming process. If you were to permit another year, I believe you would substantially facilitate the getting together by States which are really part of a common competitive area.

I happen to be a strong friend of the compact method, particularly as applied to the industrial East, where States are very, very small. I get on the train at Boston at noon. By the time I am half through my lunch, I am in the second State. By the time I pay my check, I am in the third State. I get down to Washington in time to go to bed that night and I have been through about seven States. Where the unit of regulation is so very small, it seems to me that we need to work very hard to make possible interstate compacts. So I should urge very strongly an extra year for the States to act.

More fundamental than this, however, is the question of whether the State is the proper unit to deal with the problem of unemployment. Now, I have advocated action by my own State, as I said, on several occasions. But that was because there seemed to be at the time no other method. Since the National Industrial Recovery

Act has come into existence, it is necessary to give very careful and impartial consideration to the alternative merits of the State and the industry as units of regulation.

I should regret very much to seize upon the State as the method, without exploring with considerable care the other alternative. In my own mind, I am somewhat on the fence, but my prejudices—and I must call them prejudices, because they are not the result of thorough exploration of the problem as yet—my prejudices, my preconceptions, are all in favor of the industry.

The States, in the first place, are not economic units. There is no rime or reason from the economic standpoint, to State boundary lines. Industries are economic units.

Now, the codes are based upon theory of industrial self-regulation in partnership with the Government or under supervision of the Government. The theory of the codes has been, if I understand it correctly, that each industry is subject to more or less peculiar circumstances, has more or less peculiar problems, and that it is better prepared to deal with these problems than any outside agency. The theory of the codes is that the time and attention of the Government ought to be economized by delegating to the particular industries as much responsibility for regulating their affairs as they can safely assume.

Of course, we do not know whether the codes will be permanent. Possibly the abuses under the codes will be so numerous and so serious that we shall revolt against them.

Mr. LEWIS. And relapse into the old anarchy.

Professor SLICHTER. Yes. I hope very much that they will be so administered that they can safely be made permanent, and if this happens, then there is a strong case for using the industrial organizations that we have created for the purpose of providing reserves or insurance against unemployment.

Mr. LEWIS. At this point, Professor, I am sure the committee appreciates the importance of the natural economic unit—the trade. There is another factor that the committee may be impressed with, may be overimpressed with, and that is the effect of bringing the administrative work here to Washington. Members of Congress feel that they are already overwhelmed and that even if satisfactory rules can only be attained through action of the Nation, still the administration ought to be relegated back to the States to relieve Washington as much as possible.

Have you thought of a way under which the trade organization might be used as the unit and at the same time the administration be left to the States?

Is the question intelligible to you, Professor?

Professor SLICHTER. Yes. Mr. Chairman, to be frank, I have thought about it in a little different way. I have been very much concerned over the possibility of a great mess with two more or less conflicting systems of regulation—a State system and an industrial system. Assuming the codes remain permanent, I should like to see that mess avoided as much as possible.

Undoubtedly there is danger of too much centralization. It is simply a question of how to get decentralization, whether to use the States or the industries. You might argue very cogently that

the industrial method of regulation would produce too much decentralization.

I think we have overdone the code business when we give a separate code to the mopstick industry. I think the concrete burial vault industry has not yet succeeded in obtaining its code, but it is down here trying to get a code. When we go into such a multitude of very small industrial divisions, I think we have overdone code making; and the possibility of using the industries as agencies of regulation must hinge in no small degree upon success in consolidating many of these divisions of industries under broader codes.

Mr. LEWIS. I understand in Germany they have about 1,500 cartels, horizontally and vertically organized. My impression was that our codes, from that comparison alone, were perhaps too few in number. I am very glad to hear what you say.

Professor SLICHTER. I think they are too many in number, Mr. Chairman. We may move in the direction of multiplying them, in which case we destroy much of their value as agencies for regulating conditions of labor. If we move in the direction of integrating them, they may become very useful methods of labor regulation.

In the particular case of unemployment insurance or unemployment reserves, employment occurs in large measure along industrial lines. It is a highly concentrated thing, and for this reason the premium rates should vary, not by States but by industries. That is merely sound cost accounting; if the steel industry or another capital goods industry has a heavy unemployment rate, then that industry should charge its customers enough for its product to make possible a—

Mr. LEWIS (interposing). Would it not be true that by that same sign industry would be crippled financially; that is, if the unemployment lists were large that would probably reflect the fact of a small market and leave their budget in a bad state?

Professor SLICHTER. It is true that when an industry has had its labor reserve subsidized by the community or by the workmen themselves, because the workmen themselves are the main subsidizers of labor reserves at present—when an industry has been coddled in that fashion, a sudden shift to making it pay most of the cost of its labor reserve would be disastrous. But the possibility of working toward a proper differentiation of premium rates exists only when the regulating organizations are constructed along industrial lines.

Some industries are dying industries and that is another reason why the regulation should be on industrial lines, because a dying industry must be in a position, as an industry, to obtain outside help. If we construct some kind of a pool, as I think we must to take care of those situations—for there will always be a lot of dying industries, industries being pushed out by new industries—the dying industry must be organized to approach a central pool and get relief of some kind of a systematic basis.

If you chop up unemployment relief by States, the dying industry cannot function in that fashion. The industry may be dying in one State and growing in another. As a matter of fact, within State lines there are not such things as industries. There are very few States which have enough plants of a given kind to say that "We have such and such an industry in our State."

Under the codes the industries will regulate wages. There are strong economic reasons for believing that the same agency which regulates wages should have a large measure of responsibility for the relief of unemployment. First, because there is an intimate relationship between wage levels and unemployment, and in fixing wage levels, the leaders on both sides in the industry should be put in a position where they must give very careful consideration to whether or not they are creating unemployment by what they are doing to wages. Second, because unemployment benefits are really nothing but deferred wages. They are part of the wage bill, and they should be taken into account in making the wage bill. If a wage increase is being negotiated in an industry, the question may logically arise, "Well, what to do with this wage increase; how much to pay out now, how much to be put into the unemployment reserves to be deferred wages later on when depression comes?" Third, because many industries are in a position to do something about unemployment, particularly seasonal unemployment. By their discount terms, by the dates on which they arrange for the opening of new lines, and by other arrangements some industries, are in a position to reduce seasonal unemployment.

The importance of that is that industries may, through appropriate action, conserve the unemployment reserves for periods of depression. That is what every student of unemployment, I believe, is particularly interested in seeing done; seeing seasonal unemployment reduced, so that funds can be conserved for the depression unemployment, which hits every wage earner much more seriously.

Mr. REED. I am very sympathetic with the objectives of this bill. The thing that disturbs me very much is the haste with which it is being pushed along.

It is such a complex question, and there is such a state of uncertainty as to the future, that it seems to me to launch it now without rather prolonged study, would be a dangerous thing—that is, if we wanted it to succeed.

It seems to me if this could be given very careful study and then launched at a time when business had become somewhat stabilized and was going forward, it would insure the ultimate success of it, whereas, to go into it now might not insure that success.

You already have raised enough questions to show that it should not be gone into with too great haste.

What is your opinion in regard to that, Professor? Do you think we have the necessary information at hand, and do you think we are sufficiently stable at the present time to launch this legislation at this particular session? What would you say about that?

Professor SLICHTER. I should say that depended largely upon the legislation. It would be quite undesirable, in my opinion, to pass this bill in such a form that it would leave very little room for discretion. This bill does not do that as far as the States are concerned. But it does represent a prejudgment with respect to the States as against the industries as regulating agents.

My prejudices are against delay. Bills get lost in the shuffle, and when things are a little better we do not worry so much about unemployment and do not act. As a matter of fact, I think we shall be worrying very much about unemployment for the next 1, 2, or 3 years, for I do not think this is the kind of a depression from which we emerge

overnight. Possibly that might be regarded as an argument for delay, but my prejudices are against delay, provided you can pass the kind of a bill which will not close the door to the establishment of unemployment reserves by industries under the codes, and which will not impose a burden on industry before the taxable year beginning July 1, 1936.

I have been urging very strongly that a way be found to impose a large measure of the responsibility for unemployment relief upon the industries. I should like to give, if I may, one additional reason for my belief. There is a tremendous temptation under a great many of these codes for industries to restrict production and employment in order to stabilize prices. You see, you conflict between stabilizing production and stabilizing prices, for if you stabilize prices you unstabilize production. The way to stabilize production and employment is to let prices move. But when the copper producers, for example, got together and held copper at 18 cents a pound during the first months of the depression and well into 1930, they were stabilizing prices at the expense of employment and production. The codes, in one form or another, contain a great many provisions which are likely to reduce the fluctuations in prices, and so increase the fluctuations in employment.

Mr. Lewis. You would distinguish then between articles that are elastic and inelastic in demand?

Professor SLICHTER. Yes. Of course, it is true that the magnitude of a price change needed to produce a given change in the amount demanded varies tremendously as between products, but in some way or other, we must deal with the fact the codes are fostering monopolistic action by many industries.. We might put a tax of some kind upon unused capacity.

Mr. Lewis. Unused capacity?

Professor SLICHTER. Yes. We might penalize industries for keeping capacity idle. That is just a thought; it raises a series of difficult questions. What I am driving at is this: If the industry is responsible for paying unemployment benefits according to certain standards which you might set and must raise money to do that, it has a stronger incentive to maintain production. So the need for an incentive to affect managerial policies is far greater now that codes have been put into effect than it was a year ago.

The proposal to divorce the collection of funds from incentives is particularly out of date talk, I should say now, because of the codes. If the codes do not remain permanent and we revert back to what we used to call competition, the issue may not be so acute. But it is more acute than most people realize anyway, because effective competition does not exist in a large number of industries.

We have monopolies of a great many different kinds, masquerading under a great many different camouflages. Wherever there is monopoly, there is need of an incentive to discourage manufacturers from restricting production and thereby restricting employment. I do not see how you could get that very satisfactorily unless you impose a burden on industry so that the industry will act as a unit in going after more production and more business.

Mr. Lewis. Have you considered any amendment to this bill which would make the trade organization an alternative to the State organization in the application of the principles?

Professor SLICHTER. Mr. Chairman, my suggestion would be that you add to the bill a section stipulating the minimum standards which must be embodied in codes, not standards of premium payments, but standards of relief which should be more or less uniform, and let the tax apply in the event that the codes are not expanded, within a stipulated period of time, to embody these standards.

It would be necessary to give each industry a free hand to work out its own scheme, and give it exemption from the tax only in the event that the scheme were found reasonable and financially sound by the National Recovery Administration.

Of course, many actuarial difficulties would appear at once, it would be necessary to make some rough decisions, and many of the schemes would have to be revised, but that is a problem which would also have to be faced if you acted along State lines.

Mr. LEWIS. You have been thinking of a substitute method, an entire substitute, I should say. I wish you would think—you will not have the opportunity just now—of an additional method that would be presented in the form of an election by the trade, to be put on a trade basis, in meeting these requirements, leaving State action obligatory, if the trade action did not take place.

Professor SLICHTER. I should favor, Mr. Chairman, making two simple changes in your bill. First, modify section 2, which deals with allowable credits, to give employers exemption from the proposed excise tax for contributions made to unemployment reserve or insurance schemes, established as parts of a code of fair competition under the National Recovery Act. Second, expand section 3, which deals with standards and conditions for credit allowances, to require that State unemployment reserve or insurance schemes must grant exemption from liability to employers and workmen who are covered by schemes which have been or at any time may be established in connection with codes of fair competition. These changes would not interfere in the least with prompt action by the States but they would prevent State action from closing the door to industrial action.

Mr. LEWIS. Of course, we recognize that this is not a true actuarial subject.

Professor SLICHTER. That does not worry me very much, providing the difficulties are recognized in advance. You do not know at what rate to charge off machines; you do not know how long a machine is going to last; but that is not an argument against depreciation reserves. You do the best you can, and that is all you can do in the case of unemployment insurance or unemployment reserves. Of course, it is desirable to limit the liability of the funds in certain ways, and perhaps to take steps toward preventing the first unemployed beneficiaries from drawing off the funds too rapidly, but we will get, in course of time, the necessary actuarial data.

That is always true. When you start insuring something you do not know the probabilities very accurately. The underwriter really starts out by betting with you that there is such and such a chance of a thing happening.

Mr. WEST. Your opinion is that there was a well-established monopolistic condition in industry prior to the adoption of the codes?

Professor SLICHTER. Yes, in many industries.

Mr. WEST. The codes, instead of developing that condition, really have brought it to light, have they not?

Professor SLICHTER. Yes, I think that is true. I happen to be a friendly critic of the codes; I hope they will last.

Everywhere you find a great deal of fault is found with specific provisions in particular codes. But the fundamental procedure of putting public organizations into industries where there was more or less private organization under cover, seems to me to be a step in advance, and our chances of regulating these monopolies are somewhat the better, it seems to me, when we have industries supervised by constituted code authorities, with strong representation of labor, the consumers, and the Government on the code authorities.

Mr. WEST. But your opinion is that we are not yet ready to express judgment with reference to the effectiveness of the codes, particularly with reference to the use of the trade associations in connection with an unemployment reserve fund that we might build up; that we are not in a position to know whether they could be used as the units for the building up of the reserve fund.

Professor SLICHTER. I think that is true, although I believe they can be. As I have said, my prejudices are in favor of the industrial method. What we do not know is whether the people of the United States will keep the codes. I might think that the codes in principle are pretty good things, that they are a step in advance; but, on the other hand, it may be found so difficult to prevent abuses under them that they will have to be discarded.

Mr. WEST. Of course, it is true that under present circumstances it is very difficult to plan for a permanent program of unemployment insurance, or unemployment reserves; but there is always the necessity for beginning at some point to anticipate a condition that will follow this present period of depression, and if we postpone consideration until after the return of normal business conditions, are we not likely to postpone consideration rather indefinitely?

Professor SLICHTER. There is that danger. I fear that danger, and for that reason I should like to see a broad law passed at this session, provided the law opens the door to the code method and prevents State laws from imposing liability for premium payments upon employers and employees who are subject to code schemes.

That would not require delaying action by the States but it would mean you would keep the door open for action either by industries or by the States.

There would be a chance to find out whether or not it would be better to use the industrial method or the State method. There would be a great difference of opinion, and it would be all to the good to have that argued out thoroughly. I do not believe we should rush into one method without keeping the door open for alternatives.

Mr. WEST. Your idea would be to try out the various alternatives that could be utilized in setting up this fund?

Professor SLICHTER. That is the reason I made the suggestion that you embody a provision extending exemption from the tax to schemes established under the codes and requiring the States to exempt from State schemes the employers and employees who are subject to code schemes.

I have just one other main point, Mr. Chairman, on which I should like to touch briefly, and that is the problem of financial administration. The possibilities of using unemployment reserves to stabilize business are very great, and the danger that they may unstabilize

business is also very great. It is a matter of financial administration. Of course, if the funds are invested in securities, it would be necessary to liquidate a large part of them during periods of depression. Now, that might or might not create a difficult situation. You cannot predict in advance what the condition of the money market would be.

The reserve fund may be liquidating its securities at the same time banks are liquidating theirs. If the bond market is weak, every corporation which has maturing issues to meet would be placed in a difficult and dangerous situation. Such corporations would employ less labor. They would try and conserve their liquid assets by lowering standards of maintenance and postponing necessary repairs. Some of the railroads which were in a weak condition used to close down their shops for a few weeks just before each bond interest date.

If the bond market is weak, the commodity market is bound to be affected. Likewise, the unemployment reserves may have an inflationary effect in periods of boom, and in some ways I regard this as more dangerous than their possible effect in periods of depression. One of the great troubles in times of boom is that interest rates are sluggish and rise too slowly, particularly long-time interest rates. They will be made more sluggish if the unemployment reserve funds are offering large sums for securities. There will be simply so much more money seeking investment, and that will retard the upward movement of interest rates.

To a considerable extent both of these effects can be counteracted by open market operations of the Federal Reserve banks. There are some students of financial problems who think that we ought not to rely upon open market operations, that we need a much more selective instrument of credit control than open market operations. That is one reason why I do not like to see us rely upon open market operations to counteract the effect of the accumulation of unemployment reserves in booms and their liquidation in depressions.

In the second place, even though we decided to rely most upon open market operations, there is the difficulty that a body like the Reserve Board is pretty much disposed to do the right thing too late. That is true of any group of 5, 7, or 9 men or larger. One of them, let us suppose believes that the time to act has come. He is impressed by his observations of conditions. He argues and attempts to persuade his colleagues. They are not so sure; possibly they have not been following matters so closely. Perhaps he convinces one of them. He brings up the matter again the next time, and will perhaps convince another. Slowly, the whole board becomes converted to the idea that now is the time to act. Of course, these bodies do not usually act by bare majorities. They follow the policy of trying to get virtual unanimity. And there are a good many reasons for that. So you can be pretty confident, I think, that the counteracting effect of open market operations will be too late, particularly in times of booms. The danger is much less in times of depression.

It is very easy to overcome this difficulty, and I believe you should amend your bill and introduce an additional standard before the State scheme is accepted, namely, that the unemployment reserve funds be deposited in the Federal Reserve banks. It would be necessary, I take it, to amend the Reserve Act to authorize the Federal Reserve banks to receive those deposits.

What would happen then would be simply this. In times of boom, when the premium receipts exceeded the benefit payments, checks would be drawn upon the commercial banks by employers making their payments, and would be deposited by the trustees of the reserve funds in the Federal Reserve banks. So there would be a transfer of money from the commercial banks to the Reserve banks, reducing the reserves of the commercial banks, and tightening the money market at the particular time when you are having a boom and the money market is too easy.

The reverse effect would appear in times of depression. The trustees would draw checks to pay benefits, and the beneficiaries would pay their grocery bills and rent, and those checks would be deposited in commercial banks. There would be then a transfer of funds from the Reserve banks to the commercial banks, making money easier at precisely the time when you wish it to be made easier.

There is no assurance—and this is quite important—there is no assurance that the magnitude of the effect in a period of boom would be the right magnitude. What you would be doing, in essence, would be sterilizing some funds at a time when you were having too much credit expansion, but you might sterilize the funds too fast, and you might tighten up the money market too rapidly and prevent business from obtaining requisite accommodation. The Reserve Board could counteract that effect simply by purchasing Government securities from the commercial banks. You would have inertia in that case as in the other, but the effect of the inertia would be reversed.

The brakes would go on automatically. The Reserve Board would have to act to prevent them from getting too tight, and you would commence to get a much more satisfactory regulation of the money market than you have at the present time.

You would have a real transfer of purchasing power from booms to depressions. You would have a real transfer to meet the needs of a depression. If the investments were simply in bonds that transfer probably would not occur. You would simply have, not a transfer in point of time, but merely a transfer from some persons to others.

The buyer of the bond liquidated by the trustees of the unemployment reserve fund would have less purchasing power, and the unemployed man would have more. There would be a better distribution of purchasing power, perhaps, but no increase. If the unemployment reserves, however, are deposited in the Reserve banks, there would be a genuine transfer and an easing of the money market at precisely the time when this would do the most good.

Those, Mr. Chairman, complete the suggestions I have to offer.

Mr. LEWIS. Doctor, the committee is very appreciative of your contribution to this discussion.

If you would give us a concrete draft of your suggestion as to making the trade unit rather than the State unit the functionary in the application of these principles, you would help us very much.

Professor SLICHTER. Mr. Chairman, I should be very glad to put into precise words an amendment which I think might serve that purpose. Of course, you understand, I am an economist and not a lawyer.

Mr. LEWIS. An economist would first have to draft the provision, and the draftsman would later arrange its technique. But an economist's judgment would be very, very necessary.

Professor SLICHTER. I shall be very glad to send you such a rough draft, Mr. Chairman.

Mr. LEWIS. We thank you very much.

(Mr. Slichter subsequently submitted the following draft:)

SUGGESTED CHANGES IN H.R. 7659, THE LEWIS-WAGNER BILL FOR LEVYING AN EXCISE TAX UPON EMPLOYERS

Amend section 3, by adding a paragraph to read as follows:

"(k) Provides that in the event of an unemployment insurance or unemployment reserve scheme being established as a part of a code of fair competition under the National Industrial Recovery Act and approved by the National Recovery Administration, each employer and his employees who contribute to such plans shall be relieved of all liability to make further contributions under the State law to the State fund and shall be reimbursed pro rata by the State fund for all contributions previously made by them to the State fund in excess of benefits paid out from such State fund to employees of said employer."

In addition, make minor changes in the wording of section 2, paragraph b, in order to make allowable credits applicable to contributions made to industrial unemployment reserve or unemployment insurance schemes. The following wording of paragraph (b) would accomplish this purpose:

"(b) Any employer who has paid the contributions required of him under a State law, duly certified under section 3 of this act, or under any code of fair competition approved by the National Recovery Administration, may credit against the tax thus due the total of the two following amounts:

"(1) The amount of contributions which he has actually paid during the taxable year under such State law or such code of fair competition; and

"(2) The amount by which these paid contributions were less than his largest required contributions under such law or such code of fair competition in any previous taxable year: *Provided, That—*

"(a) The amount thus determined shall, before being credited against tax, be reduced by the same percentage by which the employer's pay roll is less than his pay roll in such previous taxable year;

"(b) The employer's required contribution rate for the taxable year is less than the comparable rate for such previous taxable year, and that such reduction was permitted pursuant to provisions of such State law or such code of fair competition not inconsistent with subsection (f) of section 3 of this act; and

"(c) The additional credit permitted under this subsection shall not be allowed an employer except where the unemployment fund to which such employer contributes under such State law or such code of fair competition has paid in full throughout the taxable year the compensation required under such law to be paid by such fund, without any reduction of compensation payments within the taxable year due to the inadequacy of such fund."

Mr. LEWIS. Our next witness is Rabbi A. H. Silver, of Cleveland, Ohio.

Will you state your full name, and give your relation to the subject matter under discussion.

STATEMENT OF RABBI A. H. SILVER, THE TEMPLE OF CLEVELAND, CLEVELAND, OHIO, AND MEMBER OF UNEMPLOYMENT INSURANCE COMMISSION OF OHIO

Rabbi SILVER. My name is A. H. Silver; I am rabbi of the Temple of Cleveland, Cleveland, Ohio.

Mr. Chairman, I have been a member of the Ohio Commission on Unemployment Insurance, appointed by the Governor of our State in 1932, to make a study of the subject of unemployment insurance, both here and abroad, and to bring in a bill on unemployment insurance, which bill was drafted and presented to the Ohio State Legislature last year.

I appear, of course, before your committee, Mr. Chairman, not as an expert on finance, or an expert on the subject of unemployment insurance, although I have devoted some years of study and considerable time to the advocacy of unemployment insurance in my State and in the country.

I approach it from the point of view of a minister, one who is interested in social problems, and particularly in the economic problem as it affects the welfare of the working people.

It has been borne in upon me as it has upon many others in this country that the working people of our land are not responsible for these prolonged periods of unemployment, which occur, and for the recurring cycles of economic depression; and that furthermore, they are not prepared to meet the strain of prolonged unemployment any more than our large industrial organizations, our corporations, our railroads, and business organizations have been able to rely solely upon their own resources to meet the emergency.

So that the unemployed worker has been driven, after his reserves have been used up and his savings consumed, to resort to charity, to the dole, which is, of course, degrading to a man who has been an independent and self-supporting American workingman.

Furthermore, it is apparent that this system of taking care of the unemployed by means of organized charity has broken down practically throughout the land.

I am convinced that the necessity of waiting upon Federal emergency measures to provide relief has its definite drawbacks, from an economic point of view as well as from a social and human point of view.

Insurance against unemployment appears to me to be a constructive and dignified way of taking care of a problem which is coexistent in this country both with prosperity and with depression. It is seemingly a continuing problem of our industrial life in this country.

It is an inherent industrial risk, and it should therefore be anticipated and provided for.

One of the great values of setting aside unemployment reserves, Mr. Chairman, is that when the depression begins to set in, premiums paid out for unemployment insurance have a tendency to keep the curve of the depression from sagging too low. In our studies in the State of Ohio we found that if reserves had been set up during the 10 years preceding the depression which began in 1929, a marked contribution would have been made to the maintenance of a higher standard of economic solvency than that which actually ensued.

Personally, I feel that if we had unemployment insurance in all the States of the Union some of the emergency measures to which our Federal Government has been compelled to resort might not have been necessary.

I am, furthermore, persuaded that this is the time to initiate such legislation. Our people at the present time are keenly alert to the problem, whereas a year or two of returning prosperity would make them forget the experience through which they have gone.

Proverbially we are a people of short memory, and the thought that it would be wiser to delay the enactment of this bill until business recovers more, is, in my humble judgment, not sound, because it is very likely that in a condition of returning prosperity there will not be that drive and urge for the measure to be enacted.

I would like, if I may, to state one or two criticisms of the bill as drafted. I would, first of all, point out that I believe the 5-percent tax, as stipulated in the measure, is excessive. In our studies in Ohio we estimated that a reasonable amount of protection can be had for approximately 3 percent of the pay roll; and that on the basis of 3 percent of the pay roll we would be able to extend protection for a period of 16 weeks, paying on the basis of 50 percent of the wages of the workers, the maximum being \$15.

I am inclined to think, Mr. Chairman, that much criticism of the bill will center upon this large percentage, whereas the success of the measure, based on this actuarial insurance estimate, really does not require that large percentage.

I have also been impressed, as the result of my work on the Ohio Unemployment Commission, with the thought of the desirability of having the employee contribute to the insurance fund. That is desirable from the point of view first of all of putting it on the basis of insurance, and not on the basis of a relief-grant from industry or from the State; and secondly, in that it gives the working man the feeling that this is his insurance to which he is contributing in the same way as he contributes to life insurance. It would give him a keener interest in the insurance and will make him feel that he is an active participant in the fund that he is helping to create.

Under the provisions of our bill an employer contributes 2 percent and the employee 1 percent of the total. The contribution of the employer is also graded on the basis of the regularization of his industry, so that the manufacturer or industrialist who succeeds in regularizing employment within his industry is allowed a lesser percentage as his charge of the contribution than the one who does not regularize.

I feel, too, and I believe that the majority of our commission felt that the insurance fund should be a common fund, and that it should not be built up on the basis of separate reserves of individual industries.

Our objection would also cover the trade or code grouping to which Professor Slichter referred.

I feel that that insurance is the soundest which covers the widest spread of people in every State, and that is the reason why we approach the subject from the point of view of insurance rather than from the point of view of relief. We feel that an insurance system which is actuarially the soundest can be built up on the basis of a definitely determined contribution on the part of industry and employees.

I think that is all that I care to say on the subject, Mr. Chairman.

Mr. LEWIS. Do you happen to have a copy of the Ohio bill with you so that we could take out of it the clause dealing with the graduation of the tax on the employer for the purpose of promoting the regularization of an industry?

Rabbi SILVER. Yes, Mr. Chairman; I have a copy of the bill here, and shall be very happy to submit that to you.

Mr. LEWIS. If you insert that particular section in your testimony, it will be of service to the committee.

Rabbi SILVER. I shall be very glad to do that.

Mr. LEWIS. We thank you for your statement.

(The section of the bill referred to is as follows:)

(b) Every employer subject to this act shall in the month of July 1934, and thereafter at such intervals as the commission may determine and require, pay into the fund the amount of premiums fixed by this act, and by the commission

as authorized by this act, for the employment or occupation of the employer. Until July 1, 1937, the contributions or premiums regularly payable by every employer into the fund shall be an amount equal to 2 percent per annum of his pay roll. Thereafter the premium to be paid by each employer shall be determined by the classification, rules, and rates made and published by the commission; and every employer shall thereafter pay at regular intervals fixed by the commission such premiums into the fund as may be ascertained to be due from him by applying the rules of the commission: *Provided*, That the premium for an employer shall in no case amount to less than 1 percent per annum or more than 3½ percent per annum of such employer's pay roll.

(c) For the purpose of establishing the premiums to be paid by employers on and after July 1, 1937, the commission shall investigate, group, and classify employments, industries, and occupations with respect to the degree of the hazard of unemployment in each, shall determine the risk of unemployment on the basis of the employment record and the fluctuations in the pay roll of each employer, and shall fix the rate of premium to be paid by each employer on an actuarial rating at the lowest possible figures consistent with the maintenance of a solvent insurance fund with reasonable reserves and surplus, but within the limitations of maximum and minimum rates of contributions by employers stipulated in section 3 (b). The commission shall have the power to apply that form of rating system which, in its judgment, is best calculated to merit or individually rate the risk most equitable for each employer, predicated upon the record of employment and the fluctuation of pay rolls of such employer, and to encourage the prevention of unemployment; and shall develop fixed and equitable rules controlling the same.

Mr. LEWIS. The next witness on our schedule is Dr. I. M. Rubinow, of Cincinnati, Ohio.

Will you give your name and state your relationship to the subject matter under discussion?

**STATEMENT OF DR. I. M. RUBINOW, CINCINNATI, OHIO,
REPRESENTING THE B'NAI B'RITH, AND MEMBER UNEM-
PLOYMENT INSURANCE COMMISSION OF OHIO**

Dr. RUBINOW. Mr. Chairman, my name is I. M. Rubinow. I am listed as secretary of the B'nai B'rith, which happens to be my professional connection at present. But, today, I am not representing merely this particular fraternal organization. I am speaking also as a member of the Unemployment Insurance Commission of Ohio, of which Rabbi Silver was also a member; and perhaps more than that, as a man who happens to have devoted some 30 years of thought to the subject. I hope that establishes my standing before this committee.

Because of those 30 years of study one is full of the subject, and there are so many different aspects to it that one is somewhat at a loss to know what particular phase to touch upon.

I shall be glad to answer any specific questions the committee would like to ask.

I take it that the time has almost passed for a general defense of the principle of unemployment insurance and an argument for its need, particularly in view of the opinion so forcibly expressed only 2 days ago by the President of the United States.

We recognize that the primary principle from an insurance standpoint must be the distribution of the risk among many, and we realize now that the burden of unemployment, the relief of employees who are unemployed, has to be borne by many in a very crude way, and we, therefore, through the establishment of the dole in various ways, by city, county, State, and Nation, have admitted this one principle of unemployment insurance.

Another principle of unemployment insurance is that of building up reserves. We have not built up any reserves for unemployment insurance, and therefore we have had to draw upon the future by expanding our national debt to pay for something which we might have provided for during the last 10 years.

I would not have touched upon these general aspects of the problem any further except for certain fears expressed by Professor Slichter a little while ago.

Economists have sometimes a way of delaying action by expressing many fears and uncertainties. It is bad enough to make a definite prophecy, which may or may not be helpful. But to draw a picture of the various consequences which may or may not result, and utilize this as a means to delay action, I am afraid does not help very much.

Incidentally, the fear that is expressed that the very accumulation of unemployment reserves may prove a disturbing factor in our national finances, I think is very largely based upon a misunderstanding, a misunderstanding so obvious that one really does not have to be a professional economist to see it.

In times of boom, unemployment reserves are not the only, not even the most important, factor in stimulating the demand for bonds through accumulation of funds.

Unless we are willing to preach the policy that everybody must spend everything he earns during boom days—and I am sure our savings banks are not going to be very enthusiastic about this kind of financing during boom years—we must acknowledge what the world at large realizes, that if our boom days' savings do not flow into the unemployment insurance fund, they flow into savings banks.

If we are afraid that the bid for bonds during boom years is going to produce an inflationary condition, we might as well provide regulations limiting the sale of life insurance during boom years.

The same thing holds true of the obverse situation of the sale of bonds during bad times. To begin with, we must not visualize unemployment insurance as a system which goes on accumulating for 10 years and then suddenly throws all its reserves in the market. That is not the picture. When bad times come along, all working men do not stop working and all payments into the fund do not stop. What happens is that gradually the payments into the fund begin to decline and the payments out of the fund begin to increase. Of course, the point may be crossed when the funds begin to feel that they have got to unload their reserves. Now, if they do not do it, people who have life insurance go to life insurance companies and borrow money and people who have money in the savings bank take their money out of the savings banks, and life insurance companies and savings banks have to unload their bonds during times of depression.

How much more a charge of 2 or 3 percent and the results of that charge are going to disturb the bond market, I do not know. I would be willing to ask Professor Slichter's advice, but he does not know either. So we are on the same level, except that I do not believe that my ignorance of what is going to happen in 1941 should be used now as an argument for delaying action. I do not believe that important problems of social policy must be made dependent entirely upon the condition of the bond market.

Waiving aside any further arguments for unemployment insurance in general, your bill, Mr. Chairman, introduces a new factor into the situation. It introduces the factor of Federal action.

The Democratic platform of 1932 definitely promised unemployment insurance, but it said "Action by States."

In 1932 or in 1931 many of us still thought that these problems arising out of mass unemployment could be handled locally. Occasionally one still feels or hears reflections of that peculiar point of view; very peculiar to the United States, because the problem of unemployment is not considered a local problem in any modern industrial country.

We have created a number of what I call artificial "versus" situations. We always argue as to what to do—one thing "versus" another. We created a "versus" situation between private philanthropy and public relief; between local and State public relief; between State and national relief. In 1934 I think all of us who have any practical contact with the problem realize that there is no "versus", there is no question of "either or"; it is a question of "and." With private philanthropy "and" county relief "and" city relief "and" State relief "and" Federal relief, we are still not relieving the entire burden of unemployment.

Your bill is important for this particular reason, because it admits that there is a national obligation, a national duty.

Of course, there are several ways in which the Federal Government could handle the situation. I am entirely in agreement with Professor Slichter that it would be desirable to have one national system; not perhaps give the administration of this to codes, first because, as has been admitted, the future of the codes is uncertain, their methods of operation are more uncertain, but because it is a national problem.

If there is a way to have a national unemployment insurance law, I am in favor of it. Of course, we are told that there are constitutional difficulties. I am unable to express an opinion on that, not being a man learned in the law, though as a layman one feels that if fine problems of constitutionality have to be decided by a vote of 5 to 4, one man's guess is about as good as another's. It is a gambling chance. But if that is to be excluded for the present, there are still other ways in which the Federal Government can, and your bill undertakes to do so, stimulate, encourage, and perhaps help State action. One would be a method of direct subvention. But I suppose there are fiscal reasons why at this particular time a bill suggesting a large appropriation on the usual principles of Federal aid in connection with State legislation, might not have much of a chance of success. For that reason I am very much in favor of the bill introduced, because it is a very ingenious way of introducing the Federal Government as a factor in a situation without, for the present, disturbing our political scheme of local legislation.

There is a great deal of truth in the criticism which Professor Slichter made about the limitations and difficulties and incongruities of State action, whether the States be small or large. After all, I do not suppose it is so much a question as to where you eat your lunch and dinner and how large a State is geographically as a question of industrial importance. But if that argument should be consistently applied, what would have become of all of our labor legislation and

social legislation? I have not heard New England proposing to abolish its six different workmen's compensation laws. They have them and they manage to work under them although the same criticism could be applied to the six different compensation laws, with different standards and different systems of administration.

Your bill meets the main difficulty which we had to meet in Ohio, the one argument against unemployment insurance, which is not merely a matter of ignorance. A good many arguments are malicious and others are based upon misunderstanding. But the argument of interstate competition is a sound economic argument. Your bill is important because it meets that.

Of course, the importance of the argument has been grossly exaggerated. Two or three percent of wages does not constitute the decisive factor in the transmigration of industry from one State to another. But it may have an influence. At least, in our struggle for the bill, we have had to meet that particular argument on the part of chambers of commerce and even our Governor, who thought that because of the present situation and the presence of interstate competition, no action should be taken on the bill at this particular time.

Your bill is important because it meets this argument. There are some things in the bill which I shall be glad to comment on, which I would like to see changed or amended, but not to the extent of withholding action on the bill if any changes or amendments might delay it.

I am in agreement with Dr. Slichter that 5 percent at this particular time is a rather high charge, particularly because the standards which you have established as minimum standards do not require the 5 percent.

Of course, no one can tell exactly what unemployment insurance is going to cost in any particular State or in any particular industry. You never can do that with a new system of insurance. You could not do it with compensation 20 years ago. But such computations as have been made—and we have made them in Ohio rather extensively, perhaps more so than in any other State—indicate, as Rabbi Silver pointed out, that surely with the very low standards which you have established in the bill as minimum, 5 percent is not called for.

I do not want to go into actuarial details at present. I shall be glad to furnish the committee with any additional information in writing, if you so desire, but, on the face of it, Prof. Paul H. Douglas has computed the average rate of unemployment to be about 10 percent, taking a period of about 40 years. If you paid half-wage benefits, for the full time of unemployment, the 5 percent of the wage would pay for 10 percent of the unemployment.

It is true that in the last 2 or 3 years, the unemployment rate was very much higher than that. No one can tell how soon the next depression will come, nor how deep the next depression is going to be. But insofar as economic history teaches us anything at all, depressions of the character of the present one are not a matter of occurrence once in 10 years. The nearest approach to it was 40 years ago, and perhaps we may not have another one like this for another 40 years.

At any rate, if you limit your benefits to 10 or 14 or 15 weeks, you do not need 5 percent.

Of course, the question is, Mr. Chairman, whether you want to stick to these very low standards. I do not know what actuarial

advice the committee has had. There is evidence of very careful drafting in the bill, there is no question about that. There evidently was an intention not to force upon any State any specific type of legislation, but to include under this bill upon certification of the Secretary of Labor, all laws at present in existence—and that means only one, in Wisconsin—or all such bills as have made some fair progress in their legislative history.

There are seven States in which bills have passed one of the two houses of the legislature. But I think that there is some mistake in the desire to meet the standards of all these legislative efforts too easily. Since the intent of your bill is practically to force—by offering an incentive so strong that it is almost pressure—to force every State to adopt new legislation, it seems to me that the bill may have to take courage to force some changes in one particular act already adopted or in the other bills which are near adoption. Therefore I want to make a few suggestions about these specific standards which I think require some modification.

First, the amount of relief or benefits which the bill must grant in order to come under the exemption provision of your bill: I am not sure that I understand the language on page 8, lines 11 to 13 and 14, concerning a minimum rate of \$7 a week, or else the employee's average wage earnings for 20 hours of work.

Perhaps it is my fault—it might be explained to me—but I am not certain as to which one of the two standards would have to be in the law to be acceptable to the Secretary of Labor.

If there is to be 50 percent of wages, I would, of course, consider it satisfactory. But \$7 appears to be very low, and I am very much afraid that what is stated here to be a minimum may become in actual legislation a maximum, as often happens.

Certainly we do not want to begin with legislation so low in its standards. I think the language ought to be corrected to provide that the maximum should not be too low. The maximum in Ohio is \$15, which we think sufficient. In Wisconsin, the maximum is \$10, which we think decidedly insufficient.

Then there is the other provision on the same page, at the bottom of the page, providing for 10 weeks' compensation. That I believe is hopelessly inadequate. Of course, I do not mean to claim that 16 weeks is adequate. It is hard to say what is adequate and what is inadequate. No one suggests that the entire loss due to unemployment should be compensated for. No insurance is full insurance. We do know that 16 weeks is more than 10; we do know that a maximum of \$240 is more than a maximum of \$100.

In Ohio, I happen to have done the actuarial work for the Commission and we agreed on 16 weeks, not because we thought it was adequate, but because there was the feeling that 3 percent was the maximum load that you could put on the employer and employee combined. Personally, I did not agree with it. I urged a 4 percent rate upon the Commission, with 2 percent from the employer and 2 percent from the employee, which would enable us to increase the duration of the benefits from 16 weeks to 26 weeks. That would make quite a substantial difference.

You see, what would happen under the Wisconsin law would be that under normal conditions, with the normal amount of unemployment, perhaps 40 percent of the unemployed would be getting

compensation and 60 percent would not be getting any. There would be those who had just been discharged and who would not be getting any compensation during the first 2 weeks and those who had passed their 10 weeks and have gotten all they are entitled to. That is bad enough. But in a year like 1932, when everybody or pretty nearly everybody who had lost his job had lost it in 1930 or 1931, you would have a situation under which the funds would be very sound, money would still be flowing into the funds, and reserves would be accumulating.

The funds would not have to sell their bonds. None of those distressing things would happen for the simple reason that perhaps 5 or 10 percent of the unemployed would be getting something; but for the rest, 90 percent, this law would be a snare and a delusion. And I cannot imagine anything that would be more disturbing to the general economic and social scene in America than to have millions of people unemployed in States which presumably have unemployment insurance laws and 80 or 90 percent of the workmen unemployed not getting any relief. That would be a very serious situation; it would throw discredit upon this legislation and government in general.

If you feel that a 5-percent tax can be imposed, if industry agrees to it, then, of course, the rate of benefits could be very much enlarged. If you feel that 5 percent cannot be imposed, then, the benefits have to be kept down, but not as low as they are in the bill, and in addition we may have to stimulate States to impose a part of the burden upon the employees.

There has been a great deal of very hasty economic reasoning in the argument that the entire cost must be placed upon the employer. I am not here to defend industry and employers. It is not a question of unloading a part of the burden of the employer on the employee. We are likely again to make the same mistake of creating a "versus" situation. Whatever we can impose upon the employer, let us impose it upon him. But, in addition, the employee, can afford to spend 1 or perhaps 2 percent of his wages, because after all, it is not going to go to somebody else. It is going to come back to him. We are making him pay up in times he is working, so that he does not need to become a subject of private or public charity, no matter how carefully you disguise it by alphabetical connotations, when he is out of work, in times of depression.

There is one more thing which I think is extremely important, and which I think could be amended in the bill, and that is subsection B, page 8, which is one of the provisions which the Secretary of Labor has to pass upon, that the legal liability of such unemployment fund to pay compensation "shall be limited at all times to the resources of such fund."

I cannot see the necessity for such a provision. I see the dangers of it, particularly in the States in which we may have legislation with individual reserve funds for employers. Either we promise something to the unemployed workman and then we have got to keep our promise, or we definitely make him understand that we have promised him nothing. A contingent promise is not insurance, and even if we do not use the word insurance, there is no use talking about a reserve if, when the time comes, there is no reserve.

With a public fund the resources include the future as well as the past. If we were providing for a private insurance company, we would

have to protect that private insurance company against the obligation of paying something it has not got. The public fund, in addition to the reserve accumulated during the previous years, and in addition to the income which it is receiving in the present, also has the reserve of a right to borrow money, to be repaid out of future accumulations. It seems to me that if you are establishing through this act standards for State action, you must emphasize one definite point, that a promise made to the workman as to what he is going to get when he is unemployed, shall not be broken under any circumstances.

Mr. LEWIS. In other words, the minima prescribed—

Dr. RUBINOW. Must be paid. Now, how that is to be done—

Mr. LEWIS (interposing). In that connection—and I am thinking out loud here and may have to deny this thought—what would be the objection to saying to the lucky employee, “The time has come when you must also contribute to aid your brothers who are not so fortunate as to be employed?”

Dr. RUBINOW. That exactly expresses my point of view, Mr. Chairman, and I am very glad you use the word “lucky”, because I think we have been a little naive in our assumption that what is true of industry as a whole is also true of the individual employer.

Of course, in a general way it may be said that the responsibility for unemployment or for irregularity of industrial processes devolves upon industry as a whole. It does not follow that the same argument applies to the individual employer. The element of luck is very much more important there. I have all sympathy for the employer and I wish him all the luck he can possibly have, but I do not think we ought to make the right of the employee to get benefits contingent upon the luck that the employer may have.

Of course, there are ways out of it, even if you do not want to prescribe very closely the conditions of State legislation. I take it that the purpose of the bill is to leave the States a certain leeway of action, which may be right.

I made a suggestion some years ago which I see has been adopted at least by one State in its State report—by Virginia. That is, if you do not have a general State pool or insurance fund for all employers, you can at least have a State guaranty fund. The Virginia commission proposes that in addition to the 2 percent which the employers pay into their own separate funds, that they pay a half percent into a general fund from which those promised benefits can be paid if the individual fund is not able to pay them. Perhaps in your act, with proper amendments, something more may be done. If you are willing to take my statement that 5 percent is not necessary for the particular scale of benefits which is provided, it might be possible to divert part of this money into a Federal guaranty fund to come to the assistance of State funds, if they are unable to meet their obligations.

I have read the bill pretty carefully. I do not think there is any statement there as to what is going to happen to the difference between the 5 percent which you impose and the 2 percent, or whatever the percentage may be, which will be remitted, unless you had in view that the States would actually charge 5 percent. There may be a residue there. That residue might be definitely provided for to go into a Federal guaranty fund out of which the State funds might be subsidized if the unemployment situation which sometimes

strikes some States worse than others is such that they are unable to meet their obligations.

That brings me to another point which I should like to mention in conclusion. The whole question of a contribution to the unemployment-insurance fund or funds from public treasuries is left unanswered in the bill. For 20 years I have taught that unemployment insurance and other forms of social insurance are entitled to a contribution from the State or, in our case, from the National Government.

Many of us on the Ohio commission were criticized for not including a State contribution in our bill. I do not think that our failure to do so was due to the abandoning of our principles. But in 1932 and early 1933 the finances of the State of Ohio, as of a great many other States, were in such condition—and I am afraid they still are—that any suggestion about an additional burden upon the State treasury would have made any progress of the bill impossible. Of course, in Columbus, we could not offer suggestions of legislation that Washington should be contributing to the fund. But in Washington it can be done, and perhaps at this particular moment should be done. I have not quite as much time to wait as other people have. I would like to see action on this bill. But, sooner or later, an additional contribution from the public Treasury to those State funds might be thought of.

I know that it is now becoming popular to resent any additional propositions which mean burdens upon the Federal Treasury. But this is not an additional burden.

Because we had not done it from 1921 to 1930, we had to borrow billions of dollars to do it now, and the same principles of good economy and housekeeping which apply to a family and a citizen and a State apply to the Federal Government as well. Had we made reserves during the last 10 years for dealing with unemployment, we might not have been in a position where we had to extend our national debts at a time when conditions were not particularly favorable.

If there are any other particular problems that you are interested in, I shall be very glad indeed to take them up.

Mr. LEWIS. Thank you very much for your contribution.

The next witness is Mr. Royal Meeker, of New Haven, Conn.

Mr. Meeker, you have had a long experience in this field, and we will be glad to have you give a brief descriptive reference to your experience.

STATEMENT OF ROYAL MEEKER, NEW HAVEN, CONN., INDEX NUMBER INSTITUTE

Mr. MEEKER. Mr. Chairman, I am an economist-statistician, God save the mark.

I was at Princeton University for 8 years. I was then called to Washington to take charge of the Bureau of Labor Statistics. After that I went to Geneva to organize the research, statistical, and information work in the International Labor Office.

From Geneva I returned to take up the arduous task of the position of secretary of labor and industry in the State of Pennsylvania, my native State.

I have served on the social research commission which visited China, and since my return from China I have been associated in research work on labor problems.

I may say I advocated unemployment insurance, perhaps not very intelligently, but with a good deal of zeal, 20 years ago, and I am still advocating it. I feel that the Wisconsin unemployment compensation law is a most interesting and worthy piece of legislation, but I do regret that that law throws overboard entirely the insurance principle and puts unemployment reserve funds on a particularistic, individualistic basis, which is the very opposite of the insurance principle. It may be that is as far as we can go now, but I sincerely trust that this bill may inaugurate a movement which will result in reestablishing the principle of insurance in taking care of the terrific problem of unemployment in this country, instead of relying, as you and Dr. Rubinow have described it, on the luck of particular employers.

Now, Mr. Chairman, to conserve your time and my time and the time of these hungry auditors, I have prepared a statement, and I am ready to read it, with this condition, that I may have the privilege of completing my statement with as few interruptions as possible. Then I am willing, of course, to listen to questions, but I do not guarantee to answer them, because my experience is that Congressmen can ask questions which archangels and even economists cannot answer.

Mr. LEWIS. Is that because of the nature of the subject, or the nature of the Congressman?

Mr. MEEKER. Both.

INTRODUCTORY OUTLINE OF TESTIMONY OF MR. MEEKER

THE PLACE OF UNEMPLOYMENT INSURANCE IN AN INDUSTRIAL PROGRAM

I. Unemployment in relation to other social hazards:

1. Unemployment the only strictly occupational hazard; six major social hazards:

1. Birth.
2. Unemployment.
3. Illness.
 - (1) Occupational.
 - (2) Nonoccupational.
4. Accident.
 - (1) Occupational.
 - (2) Nonoccupational.
5. Invalidity.
 - (1) Occupational.
 - (2) Nonoccupational.
6. Death.
 - (1) Occupational.
 - (2) Nonoccupational.

2. Unemployment the most destructive of all occupational hazards:

II. Measures necessary for the outlawry of unemployment:

1. Stabilization of the general price level and of business through money-credit control.
2. Balancing production with consumption through organization of industries.
3. Unemployment insurance.
 - (1) To penalize unemployment.
 - (2) To provide for the unemployed.

III. Objections to unemployment compensation or insurance:

1. Employers cannot control unemployment and therefore should not pay unemployed workers.
2. No accurate statistics of unemployment exist, hence no provision for unemployment payments is possible.
3. The costs would be prohibitive.

4. Paying men for not working would create and make permanent the industry of unemployment.
 5. Unemployment payments are un-American.
 6. Unemployment payments would destroy the self-reliance and initiative of workers.
 7. Unemployment payments are impracticable because uniform laws in all States are unobtainable.
 8. Even if unemployment payments were desirable and practicable nothing should be done now because business revival would be retarded or prevented.
- IV. Observations upon the proposed bill:
1. Establishments employing five or more workers should be considered for inclusion.
 2. Employers having unemployment benefit systems should be included, whether or not the State has an unemployment compensation or insurance law.
 3. As further encouragement for creating unemployment payment systems, the Federal Government could properly give preference in making loans to industry to employers having such systems.

Mr. MEEKER. I have labored in the dark, because I have not known what matters have been presented to this committee. I would like, for my own sake, to put this particular piece of social welfare protective legislation in its proper place in a social program. For that reason I go back and deal with fundamentals, and I trust that will not be wasting your time.

I want to speak about the place of unemployment reserves or insurance in an industrial program.

Unemployment is the only strictly occupational hazard. There are six major hazards that threaten the well-being of all mankind. These are: first, birth; second, unemployment; third, illness, either occupational or nonoccupational; fourth, accident, either occupational or nonoccupational; fifth, invalidity, either occupational or nonoccupational; and sixth, death; either occupational or nonoccupational.

Of all these hazards, unemployment is the only purely industrial one. Sickness attacks the workers whether they work or not. Any accident which may occur in the course of work may occur in the home or on the street. One can break an arm or a leg by falling off a step ladder in the kitchen just as easily as by falling off a scaffold in the shop. Automobiles on the streets kill and maim many times more people than do machines in factories. Death and disability come alike to the employed and to the unemployed. The worker can suffer any sort of a physical disability at home as well as at work. But the only way he can be disabled by the accident, or, if you prefer, the disease of unemployment, is by losing his job. Unemployment is the only purely occupational hazard of all life's hazards.

Unemployment is the most destructive of all occupational hazards. We have no reliable statistics of unemployment for the whole United States. The several attempts made by the Bureau of the Census to count the unemployed fell far short of giving us complete or satisfactory information. The census of unemployment made in 1930 was, perhaps, less satisfactory than previous censuses because only persons "usually occupied" who had no jobs of any kind were enumerated. Thus all new job seekers were excluded and all others who were doing odd jobs or who were actually without work but whose names were still kept on employers' pay rolls. It is probable that the number of job seekers without work in April 1930, was three or four times the figures reported by the Census Bureau.

Incomplete and inaccurate as our information is regarding unemployment in the United States, it seems certain that this industrial hazard has cost more than all other industrial hazards combined. Estimates which are scarcely distinguishable from guesses, have been made of the dollar losses due to lowered production and earnings during this depression. It is impossible to express in dollars the terrific losses resulting from disorganization of the business system and the demoralization of the workless workers. It is probably true that the destruction of values and morale during the past 4 years of so-called "peace", has been much greater than the destruction during the 4 years of the World War. The reduction of these terrific costs of peace is quite as important as the reduction of the costs of war. The outlawry of unemployment is, in my opinion, more necessary and more practical than the proposed outlawry of war. I advocate the Wagner-Lewis bill because I think it is a step toward the abolition of unemployment by law.

What measures are necessary for the outlawry of unemployment? All preventable unemployment should, of course, be prevented. Three major measures are essential to reduce unemployment to the irreducible minimum and to take care of those unfortunate workers who, in spite of all that can be done to systematize and stabilize production and consumption, are unable to find work.

These three major measures are: First, stabilization of the general price level and of business through money-credit control; second, balancing production with consumption through organization of industries into associations; third, unemployment insurance, first, to penalize unemployment, and therefore reduce it, and, second, to provide sustenance for the unemployed.

Unemployment insurance should be regarded primarily as a preventive measure. Its function as a means for sustaining the lives and the morale of workers, important though it be, is secondary.

I submit a brief outline of these three measures to show their place in a program for the outlawry of unemployment.

First, as to stabilization of the general price level and of business through money-credit control.

Violent disputes rage about the relation of the general price level to business. After all these years of discussion, ranging from affable to acrimonious, there is little agreement as to what is the meaning of the general price level. However, there is general agreement that widely fluctuating prices do have a detrimental effect upon business. Business men, as distinguished from speculators or gamblers, desire stability of markets so they can make their contracts with assurance that prices will not change much.

It is, of course, utterly impossible, as it is undesirable, to hold the prices of all goods and services fixed and unchangeable. It is, however, both possible and desirable to hold the general level of wholesale commodity prices really level. This seems to be very necessary in order to prevent losses or gains to business men, which are due, not to changes in supply and demand of any particular commodity, but to changes in the purchasing power of the business dollar in terms of all commodities.

It seems evident to me that the stabilization of the price level now would do vastly more to spur business on toward permanent recovery than any other measure.

The next measure I desire to discuss is balancing production with consumption through organization of industries into associations.

The N.R.A. has made a long advance toward organizing industries into associations for the purpose of regulating production to meet the demands of consumers. This program of planned economy is only in the beginning and experimental stage, but already it is meeting with strenuous opposition. The difficulties will grow greater, not less, as time goes on.

It is clear to any thinking man that the disastrous booms and "busts" in industry will go right on booming and "busting" until and unless production of goods and services is brought into reasonable relationship to the estimated requirements for such goods and services. It gets us nowhere when earnest persons assert that there is no overproduction and denounce all attempts to control production as unconstitutional attacks upon the inalienable rights of Americans to work as many hours and to produce as many unsalable goods as they please.

Perhaps the American people will refuse to make the sacrifices necessary to establish a planned economic system. Perhaps they prefer planless chaos. If they do, it means that society must continue to suffer the shocks of booms and "busts" with all the staggering losses inseparable from these cataclysms.

It will be utterly impossible to outlaw unemployment under a planless economy. It will be extremely difficult and not very advantageous to establish a system of unemployment insurance without a considerable degree of economic planning to reduce unemployment.

Unemployment insurance, like workmen's accident and sickness compensation, should have as its principal object the reduction of the work hazard in question to the lowest possible minimum. The first aim should be to make it impossible for unscrupulous employers to continue their practices of hiring and firing workers at will, denying all responsibility for the maintenance of the workers they deprive of work.

You will note, Mr. Chairman, I am speaking only of unscrupulous employers here. I am not condemning all employers as unscrupulous.

Unemployment should be made as costly as possible to the particular employers responsible for it. Each employer should be made to realize his responsibility for his own employees, and, so far as possible, take care of his regular workers during periods of unemployment. A special reserve fund should be built up to take care of casual laborers and unemployment resulting from great secular business depressions.

That very briefly touches upon the subject so ably dealt with by Dr. Rubinow.

As to the objections to unemployment benefits or insurance, there are eight major objections which are advanced against any plan to make money payments to unemployed workers. That is, any system or plan of unemployment compensation.

In the first place, employers say they cannot control unemployment and therefore should not pay unemployed workers.

In the second place, they say that no accurate statistics of unemployment exist, hence no provision for unemployment is possible.

In the third place, they say that the costs would be prohibitive; in the fourth place, they say that paying men for not working would

create and make permanent the business of unemployment. Their fifth objection is that unemployment payments are un-American; their sixth objection is that unemployment payments would destroy the self-reliance and initiative of workers; their seventh objection is that unemployment payments are impracticable because uniform laws in all States are unobtainable. Finally, their eighth objection is that even if unemployment compensation were desirable, or practicable, nothing should be done now because business recovery would be retarded or perhaps prevented.

These eight objections have a familiar ring. They were all used to combat workmen's accident compensation, sickness compensation, health insurance, and other progressive measures designed to reduce and redistribute the burdens that press down so hardly upon the workers, and all with small incomes.

Let us discuss them in detail. First, they say, employers have no control over unemployment. A large group of employers assert that they have no control over the volume of employment in their plants. Supply and demand, they say, determines the number of their employees. Hence to compel employers to pay workers for not working is the grossest injustice.

I agree fully with Dr. Rubinow in what he said on that subject, but we have not the time to develop it any further.

Individual employers, of course, do not have complete control over employment, but they do have a very considerable control. They can prevent themselves from being carried way beyond the bounds of reason in expanding their plant employment in times of boom days, only to fire the helpless and hopeless workman out on the streets to fend for himself, or be taken care of by society until a business boom recurs, and again the law of supply and demand may call the worker back into the plant of the employer.

These statements that I have just cited as being made by the employers are somewhat less than half truths, as can be shown. Employers do have and do exercise a most powerful dominance and control over the employment of labor. That, of course, when we take whole industries into account is almost a truism.

Most of the powerful employers are called "Captains of Industry", and they do not resent the title. Quite the reverse. They have insisted that, without their enterprise, foresight, and risk taking, no industry could exist and employment would practically cease.

The truth lies somewhere between no control and all control by employers over the numbers of workers employed. It is most desirable that industry should be so organized that employers should have a much greater control over unemployment and responsibility for the stabilization of employment. Unemployment reserves and insurance can help greatly to strengthen this control and responsibility.

That is true especially when it is Nation-wide, as it must be to be really effective, and that is what this bill aims to do, as I understand it, to establish a Nation-wide system of unemployment reserves or insurance.

It is also said that there are no accurate statistics of unemployment in existence.

It is quite true that no accurate statistics of unemployment are in existence, but labor statisticians have known for half a century that

unemployment was more serious in the United States than in European countries, and that it was a very heavy burden upon American industry and society.

Many argue that it is impossible to set up an unemployment-benefit system, much less an insurance system, until we secure accurate statistics showing the kinds, the amount, and the duration of unemployment, and the geographical distribution of unemployment.

Of course, it is impossible to set up unemployment reserves on the same bases as life-insurance reserves are set up. Insurance began as a hedging speculation. Merchants owning cargoes on the high seas bet that their cargoes would not reach port. If a cargo did survive the perils of the deep, the lucky owner was glad to pay his bet; if it did not survive he got a sum of money which repaid him, in part, at least, for his lost cargo.

The hazards of the sea, of hail, of cyclones, of lightning, of floods, of sickness, are now covered by insurance. Several of these risks are no more predictable and insurable than unemployment, certainly no more than unemployment would be if we had the social program that I have previously outlined, actually operating.

If we had unemployment reduced to a minimum and had a system of unemployment compensation, then certainly unemployment would be an insurable risk and much more predictable than are hailstorms to Iowa farmers.

It seems to me very desirable that unemployment insurance or reserves should be established as soon as possible to lessen the terrific costs of unemployment and to distribute these costs more equably through society. A few years of experience would establish unemployment insurance on a basis as solid as health or accident insurance. I am convinced of that.

It is also said that the costs would be prohibitive. The prohibitive cost argument overtops all others in the minds of employers and legislators. This argument is so naive I am astounded that thinking men solemnly concede that it is unanswerable without question. Yet the appalling costs of unemployment are now being met somehow by somebody. These costs exist now, and they are very real.

To hear or read the arguments of those who oppose doing anything about unemployment except to dole out soup and bread to starving workers, one would think that unemployment costs nothing until we recognize its existence and try to take some of the burden off the shoulders of unemployed workers and put some of it on employers and consumers.

It is merely a question of redistributing the burden, with a very important addition, which I will make later.

Mr. LEWIS. In other words, the question is, Who is going to pay the tax?

Mr. MEEKER. Exactly. The question of the tax comes into that also.

The total costs of providing compensation for unemployed workers are reckoned by opponents of compensation as a new and an added cost upon employers and the community. The facts are that these appalling costs are now being paid in the most wasteful way; for the most part by those least able to pay, the unemployed workers and their families and friends with some assistance from public relief work, public charity, and private charity.

It is certain that a systematic system of insurance would cut down the amount of unemployment some and reduce the costs more, while distributing these costs where they belong, among employers, the purchasers of their products, and the tax paying public.

So it is not merely a question, Mr. Chairman, of redistributing a fixed cost. It is redistributing a lessened cost due to establishing a system, recognizing unemployment, and making a real provision for unemployment.

It is the cost of continuing our present dole system which is prohibitive, not the cost of unemployment compensation. Our standards of living will be impaired still more unless we have the wisdom to supersede our systemless dole system by unemployment reserves or insurance.

The fourth objection that is made is that paying men for not working would create and make permanent the business of being unemployed.

The danger that workers will refuse jobs in order to draw unemployment benefits is greatly exaggerated. I could take up a good many minutes of your time pointing out specific examples of such exaggerations.

A few persons will doubtless try to work at the job of doing nothing in order to get the unemployment benefits. But with a proper law enforced with any degree of efficiency it will be impossible to work the out-of-work racket for long.

The fifth objection that is made is that unemployment payments are un-American.

The opponents of any kind of social legislation have the habit of condemning the measures they oppose as "un-American", and "contrary to the peculiar genius of the American people." I have never been able to discover just what that peculiar genius is, but it is always referred to.

This favorite formula has lost much of its former potency, however. Workmen's accident compensation was alleged to be "contrary to the peculiar genius of the American people", whatever that is, but compensation laws were demanded and finally secured by these very American people. Today no honest and capable employer would think of discarding the accident-compensation laws, because they know that these laws are just as much a protection to them as to their workers. A like result will follow the enactment of unemployment-compensation laws, in my judgment.

The sixth objection that is made is that unemployment payments would destroy the self-reliance and initiative of workers. Here again, I must beg your indulgence, but I think that is an argument that is worthwhile considering.

Opponents of social welfare-legislation manifest a great keenness to safeguard and encourage the self-reliant independence and constructive initiative of the American workers. "Rugged Americanism" was a favorite expression used to show the superiority of our workers to the workers of other countries.

Four years of depression and unemployment have pretty thoroughly changed "rugged Americanism" into "ragged Americanism." Yet, in spite of their great sufferings, physical as well as moral, the American workers, have, for the most part, maintained their self-

respect and independence. They have not become Socialists or Communists.

A spirit of self-respect which can survive the terrible ordeal which is afflicting us can certainly stand up under the strain of a mild dose of social justice such as is proposed in the Wagner-Lewis bill without being poisoned with communistic doctrines. Workers' morals will not be undermined and all shot to pieces if employers and the consuming and tax-paying public are required to carry some part of the burden of unemployment which is today crushing the workers, who are in no way responsible for this particular unemployment.

I think the "rugged Americanism" objection can best be described as bunk. This is not an elegant term, but it expresses my convictions accurately. I think that unemployment benefits must be provided if we are to preserve Americanism of any kind, rugged or ragged.

The seventh objection that is made is that unemployment payments are impracticable because uniform laws are unobtainable.

One of the most stubborn objections to industrial welfare legislation is that if a State enacts such legislation it will put industries in that State at a disadvantage in competition with those of other States. That was urged against compensation laws for a long time, very effectively.

The Wagner-Lewis bill meets this objection completely. By imposing an excise tax on industrial establishments in all States, and allowing credits for all payments made into unemployment reserves or insurance funds, uniform distribution of unemployment compensation costs are secured, whether the State laws are uniform or not.

The eighth objection is that even if desirable and practicable, unemployment compensation should not be undertaken now, because business revival would be retarded or prevented.

I think, Mr. Chairman, I agree pretty thoroughly with the very constructive criticisms and statements made by my friend, Professor Slichter, but on this point I am sorry that I am obliged to disagree with him completely; it seems to me he has caught hold of an idea by the tail; I think he has it all wrong. The conservative always falls back on his last ditch objection, "This is not the time to do anything"; no matter what time you propose any progressive welfare protective legislation you always meet with that objection, "This is not the time." I think this is the very time to enact this bill. The necessary State legislation cannot possibly become effective inside of a year and probably much longer than that. It is imperative that the terrific cost of unemployment shall be reduced and readjusted in order to prevent curtailment of production and consequently of living standards. It is precisely because we are in an emergency that I most emphatically urge the passage of this legislation. I am ready to accept all of the suggestions by Dr. Rubinow and Professor Slichter in the way of desirable amendments to make the law more effective in producing the results desired, but action, not further investigation, is demanded. We know enough about unemployment now to know that it is the most threatening hazard of all industry.

I have pointed out that while it is the only purely industrial hazard, and is by far the most destructive of all hazards, yet it was the last to be recognized as an industrial hazard and many people, not merely employers, but many others, do not yet accept the fact that unemployment is an industrial disease.

I repeat then, with all the emphasis at my command, that it is imperative that the terrific costs of unemployment shall be reduced and readjusted as soon as possible, in order to help industry to maintain production and to help us to maintain the standards of living, which are not too high, and never have been too high; even in 1929 when we were at the very peak of production, we were not producing enough, as statistics can show, to give a minimum of health and decency standard of living to all American workers.

While it is true, of course, that the way to overcome this depression, which is ascribed to overproduction, is not to produce less, but to produce more; I grant all that; it is necessary to direct industry toward that goal and this is one means and an effective means of directing it toward that goal.

I hope I have made it clear, Mr. Chairman, that in my opinion unemployment insurance ranges far down in the list of necessary legislative action for the elimination, the outlawry, of unemployment.

If we were confronted by this trilemma—if we could do only one of the three things that I have suggested, I would say let us establish money-credit control so as to prevent violent business fluctuations so far as possible. That is the most readily available and I think the most effective plan of bringing about something that we may, without too much stretching of the English language, call stabilization of industry. If we can do only two things, the second thing I would do would be the organization of industry into industrial groups somewhat along the lines which are now being carried out by the N.R.A. under the codes, in order to make our production meet the demands of consumption, not as at present in some lines, permitting employers to rush out and establish all sorts of new industries and overdevelop other industries, so that we produce unsaleable products, that is, products which are unsaleable at remunerative prices. I would put unemployment insurance in point of importance as third on the list, and even then, unemployment insurance as a preventive which is far and away the most important job it has to perform. Only secondarily, is it as a means of sustaining the lives of workers against the revival of the operation of the famous law of supply and demand. I am sorry to be obliged, then, to differ sharply with Mr. Gerard Swope on this point, that is, the timeliness of this legislation. Now is the time for action; no further study by Congress is necessary; we all know that unemployment is the greatest industrial hazard, and that to leave it any longer to be taken care of haphazardly will threaten industrial recovery very seriously, and it will certainly lower the standards of living.

Mr. Chairman, I have not attempted any minute analysis of the bill itself. I am not an actuary and I do not feel competent to discuss the 5-percent tax. I simply leave it as it is; others can deal with that much more intelligently than I can. I have, however, made some tentative suggestions in regard to some matters. First, I think that establishments which employ 5 or more workers regularly should be included; at least, it should be considered whether they should be included in the scheme to be subject to the excise tax law, and I am forced to that conclusion by the fact that so many establishments that have formerly employed 20 or more people are now employing even less than 5 people. The business handled by small establishments employing no more than 5 persons is very great, and the con-

tributions that these small establishments make to unemployment are very large. These small employers should, I think, be made to realize responsibility for unemployment, as well as the large employers.

Second, individual employers, as well as groups of employers who have adopted unemployment benefit systems in their plants, which measure up to the standards required in the Wagner-Lewis bill should be encouraged, not penalized. The excise tax should, I think, be remitted to these progressive employers to the extent of their contributions for the relief of unemployment in the same way which is provided in respect of those States which enact unemployment reserve or insurance laws.

Third, as perhaps an additional encouragement for the setting up of unemployment benefit systems, I suggest that preference should be given in the making of Federal loans to industries, to those employers who have established, either under State law or independent of State law, acceptable unemployment benefit systems. That, I think, might give an additional punch to the law.

I was very much interested in Dr. Rubinow's very able and constructive presentation, and he knows the situation much better than I do, especially in regard to actuarial matters; I think the best thing I can do is to say that I endorse all of the suggestions that he has made.

I trust, Mr. Chairman, that the committee in weighing the arguments for delay presented by Mr. Slichter, may set over against his arguments my arguments for immediate action. Act as soon as we can, and we will be slow enough in establishing an unemployment compensation system Nation-wide in scope, and we cannot too quickly begin the establishment of such a system. Professor Slichter has presented one thing that is rather new to me; that is, he has suggested the setting up of unemployment compensation systems in industries by industries, rather than in States by States. You will note, Mr. Chairman, that he was not any more sure about the length of life of these industrial codes than am I. This we know, Mr. Chairman: The States exist, and, so far as political institutions are concerned, they are immortal; we know that the States will be in existence in 1941 or any other year when the next great industrial cataclysm comes about. We do not know whether these codes will exist after June 30, 1935, and we do not know just how they will exist, even if they live up to that time.

I think Mr. Slichter has exaggerated the importance of what the industries have done, or stand ready to do, as associated industries, to provide acceptable systems for the prevention and the relief of unemployment. I think also he exaggerates the smallness of our States. The States are big enough so that they can provide for systematic systems for taking care of unemployment. Furthermore, the States are the only authorities that can take care of small industries which have not yet been organized into codes and are not at all likely to be organized under codes. I was not aware that the mop-stick industry had a code; but I assert that the State is a political entity that now exists and will exist in the future. We know we can deal with it, and the law, your bill, Mr. Lewis, can be so redrafted as to permit of these industrial unemployment compensation systems in addition to or supplemental to the State systems. I think I am

perfectly safe in saying that nothing will be done about it until and unless the States do take action. The Federal Government certainly is not the authority to go into this field of providing unemployment compensation insurance and reserve funds. The question of constitutionality at once would arise and all our energies would be taken up in trying to prove that it was constitutional and eventually we would be overthrown. Even if we could get such a bill enacted into law, the Supreme Court would declare it unconstitutional, so all the work would be wasted. The proper line of attack is the line taken under this bill, in my judgment, and we should not be deflected by any argument of the wonderful things that industry has done.

Even at the peak of the organization and prosperity of industry in 1929, industries were certainly not taking care of more than three fourths of 1 percent of unemployed workers through benefit systems of any sort. Today I think it would be rather an exaggeration to say that employers, individually or in groups, are now taking care of one fourth of 1 percent of unemployed workers. This condition needs to be corrected, and the right way to correct it is to begin. The only way we can begin is to encourage States to enact compulsory legislation which will bring about some action. The law can be perfected in its details as we gain experience. Just as Dr. Rubinow has pointed out, and as I have, with less authority, pointed, out, we can build up our unemployment experience under unemployment insurance laws, and that is the only way we can build it up. I am ready to answer any question which you may have.

Mr. LEWIS. I think I have just one question. The subject has been well covered this morning and in former hearings. In enumerating remedial instrumentalities, a maximum number of hours per week, 35 hours or 36 hours has been suggested; would you include that?

Mr. MEEKER. I think, Mr. Chairman, I would want to think that over before giving a categorical answer. I am a little bit leary about this too rapid rushing, as it seems to me, into 30-hour week legislation. That will eventually come; there is no question about it.

Mr. LEWIS. I am not thinking of it as a provision of this bill, but as one of the methods through which society can treat this problem.

Mr. MEEKER. Yes, that certainly is a means of distributing wages or earnings among a larger number of workers; there is not any question about that. As Dr. Rubinow, I think, pointed out, that will not increase the sum total of purchasing power, but it will redistribute it much more equitably than it is now distributed, which is desirable.

Mr. LEWIS. Thank you very much, Mr. Meeker.

STATEMENT OF MISS HELEN HALL, THE HENRY STREET SETTLEMENT, NEW YORK CITY

Mr. LEWIS. If Miss Hall is present, we shall hear her next. Miss Hall, please give your relationship to this matter.

Miss HALL. I am director of the Henry Street Settlement in New York and am chairman of the unemployment division of the National Federation of Settlements and have been making studies of unemployment conditions for the last 6 years. Mr. Chairman, in listening to Professor Slichter's very scholarly testimony, I could not help but contrast it with the unemployment situation as I have seen it so closely and with the meetings that are each day getting larger and

more bitter, in protest against the situation; and I could not help but contrast his desire to put off action with the increasing unhappiness and bitterness which I see around me.

On behalf of the settlements of the country I strongly urge the passage of the Wagner-Lewis bill at this session of Congress as a spur to State action. We need Federal initiative to bring us a unified, dependable, self-respecting system for handling unemployment.

After 5 years of mass suffering, only one State has passed an unemployment insurance law. If we are to wait for action, State by State, and only one State acts during each depression, it will take 2 centuries of hard times to cover the country.

We need Federal initiative not only to get action, but to make for unity. Such a piecemeal process would leave us, even if it were speeded up, with a hodge-podge of State laws penalizing employers in States that wanted to do the right thing, and uneven in the protection it would throw over the workers. The Wagner-Lewis bill leaves room for State initiative but lays down certain bedrock standards which must be met nationally. Certain of the standards I should like to see raised. For example, the minimum time set for out-of-work benefits is 10 weeks as against 26 weeks in England—and the \$7 a week does not bear a fair relation to living costs in the United States.

We not only need unified action but we must make that action dependable. By that I mean, first of all, something that we can count on as times pick up and the general public loses interest. The depression has made the public aware of unemployment but has not made it aware that it is a problem to be dealt with in good times as well as bad. We have turned to the Federal Government for crisis relief. Our newly recognized national responsibility for unemployment should not mean merely the granting of huge sums for emergent aid but the laying down of a durable system for the future—one that will be there when the next crisis comes, one that will take over some of the burden in normal times. This is what the Wagner-Lewis bill is devised to bring about and it is striking while the iron is hot.

I know of no better way to gage what we shall be up against when times are better than to go back to conditions as we found them in studies made by the National Federation of Settlements in 1928 and 1929. Over 100 neighborhood houses cooperated in the study which showed what was actually happening to the families of men out of work throughout the country. Just 4 years ago on the 1st of April I brought the findings of this study to a Senate hearing at the request of Senator Wagner and Senator La Follette. More and more during the prosperous years, the settlements had sensed the pressure of unemployment in their neighbors' lives and the lack of facilities in their communities to handle it. At the same time what they felt to be even more discouraging was the general unwillingness to acknowledge that there was such a problem. Senator Wagner and Senator La Follette were heartening exceptions to this rule. They were aware not only of the economic waste of unemployment but of its human significance.

Since then we have gone on with our settlement inquiry and in the course of it have made a comparative study of how American families have been taken care of by our emergency relief methods and how corresponding English families have fared who had insurance to count on. In spite of all the misery we have dealt with however in

these last 4 years, the helplessness of the unemployed in the United States in the predepression days is still vivid. That when the country thought itself prosperous, the public was blind to unemployment, which made it none the less acute for the man out of work. The wage earner in those days ran the risk not only of being out of a job but of being up against the smug impression on the part of the community that if he had been any good, his factory would not have closed down or introduced new machinery or indulged in style or seasonal changes.

During those last good years we watched the difficulties of our neighbors in finding jobs once they were laid off, and the increasing length of their out-of-work periods. This was reflected in the answers of the employers and foremen as we tried to help: "Yes, he was a good workman, but we've put in a new machine." Or, "We're laying off, not putting on and won't need anyone till spring." Or, "We have reorganized and are using fewer people." Or "That was a hand operation and will never be used again," and so on. These answers drove home what our neighbors were up against in trying to hold jobs or if they lost them, to reinstate themselves in new operations or wholly new trades. It is not the quick and simple thing it sounds, for the individual worker to swing himself over from a bench where he may have used the same tools for 10 or 15 years to a place in one of the luxury trades or services which according to the statisticians' charts, were so happily supposed to have absorbed the displaced factory worker. If the transfer is to be made, the man needs some backing and security while he goes through what is often a very slow and difficult adjustment. It is not merely a matter of his desire to work. A man who has run a machine or been part of some factory operation for a long time has to do a good deal of selling to get himself taken on, for example, at a gas station. It might be said in passing, too, that to judge by the look of gas station attendants and their like the job has generally been filled before he gets there by a younger brother or his son.

We have every reason to know that this process, not only of throwing men out of work, but of throwing jobs into the discard has been going on wholesale during the depression. We have every reason to believe that it will go on in the months ahead. Unquestionably we shall still face a large bulk of unemployment if business gets back to normal. The overhang of the depression in itself will be a tremendous relief problem. Shall we aggravate that by instituting no measures for reserves which will safeguard the wage earners as they go back to work? If the Wagner-Lewis bill is passed at this session, with the legislatures meeting next winter, we would have the chance of attaining some uniform protection perhaps within the next 3 years, certainly not before. I should like to ask you to consider whether the Federal-aid principle might not be incorporated in the Wagner-Lewis bill to advance the date when coverage would begin. It was incorporated in the Wagner Act of 1933 through which we are developing a Federal State system of employment services. Why not use funds from the Federal Treasury such as now are sunk in emergency relief to lay the foundation of a permanent plan and set it going soon?

While the hunt for work went on in those good times what happened in the man's family? It is an old story now but it is unfortunately

still a living one and will continue to be so if the insecurity of men and women and children seems less important than a 5-percent tax. The history of those unemployed families, written on pawn tickets, on eviction notices, on foreclosures, ended up in the lowest form of habitation the community afforded, and we go pretty low in that line. With every stage of the down grade went the undernourishment of children. If the family applied for help, there was chance of their getting it, but no assurance, for that depended upon the community in which they lived. In Philadelphia, for instance, the leading private family welfare agency was too overburdened to take unemployment cases in 1928 and 1929, and Philadelphia boasted no outdoor relief. The family went through this demoralization not because the father was not a good worker but because his livelihood depended on forces with which he could not cope. Are we to go back to that sort of thing and call it a new prosperity?

We talk a great deal about self-reliance in the United States but we have not yet joined the company of nations which believe in self-reliance enough to conserve it for the men out of work.

Let me turn now from the situation we tolerated before the depression to the situation we confront today. The best argument for unemployment insurance that I know is a careful study of what we have done and failed to do in this country during the last 5 years. Even after the market crash, it was 2 years before the Government at Washington brought itself to regard unemployment as something that should be reckoned with, rather than belittled. While the "new deal" has done much to vitalize national responsibility toward the unemployed, the wording of the Federal Relief Act, the title of the administration set up at Washington last June, and even the pronouncements of President Roosevelt on relief, reiterated that these are emergency measures. In New York, the title of the State agency carries a double qualification. It is officially labeled a Temporary Emergency Relief Administration. In Pennsylvania, Governor Pinchot in 1930 appointed one of the first State commissions on unemployment, one which brought forward a long-range program. Nevertheless, Pennsylvania ignored its commission's report as California and all the rest of the States except Wisconsin have ignored theirs.

The President last week put the administration behind the Wagner-Lewis bill; but the country as a whole has not gone beyond emergency measures and our relief methods are, many of them, such as to bring misery when they should relieve. Almost every county in almost every State has its own tale of inadequacy.

In New York State itself, which has done perhaps one of the best pieces of work, the unemployed family has for the most part subsisted on a grocery order. Only now are the cities of that State permitted public cash relief by the change this month in the State law. Last fall the streets of the poorer sections in New York were decorated here and there with little piles of furniture belonging to evicted families, as have been the streets of most of our cities during the last 4 years. Four dollars a month has been enough for an unemployed family to live on according to the standards in some States. Four times unemployment relief has given out entirely in Philadelphia, and so it goes. Are we going to leave it at that or are we going to put a steady, self-respecting plan of defense back of all our unemployed—

something which may keep them out of relief lines and give them some security when industry fails? The alternative is to continue our series of makeshifts, none of them related to the past or the future or worked out as part of a consecutive national policy. We have had private drives, public appropriations, pork, work relief, butter, and civil works, but no orderly system of protection with some element of permanent planning in it.

Although we still hear it said as an argument against unemployment insurance, it seems hardly possible that anyone could live through these past years and still believe that the average person prefers help to work. It has been disproved in so many pitiful ways that it should be no stumbling block in the way of such legislation as is here proposed. Those who cling to the old argument should have stood this winter in the long waiting lines before the offices of the United States Reemployment Service where 10 million people registered for 2 million Civil Works jobs.

Then they should have lived for awhile in a settlement where the men and women who registered kept coming back to know why they were not employed. They should have had to explain unsuccessfully to hundreds of people why they had not been chosen when others were. They should have watched those lines form in the night and stand during the bitterest weather until the offices opened in the morning. They should have had to call out the police to stop the fights that occurred when someone was caught chiseling—getting ahead in line. They should have worked with our Henry Street nurses in New York as they cared for cases of pneumonia among the men who went to work on Civil Works jobs without sufficient clothing and while they were half sick.

From beginning to end of the depression we have had ample proof of the desire for work on the part of the general run of our own fellow citizens and should need to go no further, but in our comparative settlement study of English methods we found these eager lines of ours matched with eager lines in England even though there some decent security is afforded the man and woman out of work. The security which unemployment insurance offers does not halt the English hunt for jobs. At the British labor exchange they fight for them and the lines that form where work is given out have often to be handled by the police, while the lines waiting for their insurance are peaceful and orderly.

We have just made a house-to-house census in the neighborhood of the Henry Street Settlement. We found that at the time of our visits there was unemployment in over 48 percent of the homes and that there was no one working at all in 38 percent of them. Yet, after nearly 5 years of unemployment, when the resources of even the well-to-do are running low, only 24 percent of these families was getting outside help. There on the top floors of old tenements are families slowly starving themselves that their savings may last until the tide has turned and they can be self-supporting again without ever having had to ask for charity. Although their pride and suffering is hidden away from you and me unless some neighborly errand takes us up their stairs, their kind can be found all over our land and we have as yet laid down no self-respecting way of helping them.

Beside this study of the immediate neighborhood of the Henry Street Settlement our nurses recently made a city-wide canvas of unemployment in the families under their care. Of the wage earners in these families, 44 percent are totally unemployed. This is while Civil Works is still operating in New York City. These figures bid fair to be worse in a few days when another emergency scheme comes to an end and the Civil Works Administration discharges its quota, many of whom will not be reabsorbed in work relief. Some of the bitterness of that blow might be lessened if at the same time the Government makes a move toward unemployment insurance.

We know that men and women in the United States want work above all else, but we know too that our industrial system is not likely to supply enough to go around. Should a demoralized, piecemeal charity be left to take up where industry leaves off or should Congress take the lead and work out an intelligent scheme of insurance such as we employ in guarding against the other hazards of life and business? That, it seems to me, is the fundamental question involved in the passage of this bill.

Mr. LEWIS. Thank you very much, Miss Hall. The committee will now recess until 2:15 this afternoon.

(Thereupon, at 1:10 p.m., a recess was taken until 2:15 p.m. of the same day.)

AFTER RECESS

The subcommittee resumed its hearings, pursuant to the taking of a recess, at 2:15 p.m., Hon. David J. Lewis presiding.

STATEMENT OF BENNET MEAD, TREASURER THE PEOPLES' UNEMPLOYMENT LEAGUE OF MARYLAND, BALTIMORE, MD.

Mr. LEWIS. Ladies and gentlemen, we will now resume the hearing. Mr. Mead, will you please take the stand?

Mr. MEAD. I am appearing at the hearing in place of Mr. C. W. Whitmore, who is chairman, and I am treasurer of the Peoples' Unemployment League of Maryland.

The Peoples' Unemployment League of Maryland, Mr. Chairman, is an organization of some 15,000 members, most of whom live in Baltimore City and County, most of whom are unemployed workers, and many of whom are destitute and dependent on public relief. Thousands of our members are, or have been C.W.A. workers. Our organization has undertaken to function, since it was formed a year ago, in the same way for the unemployed that the organized labor unions do for those having jobs. In particular, we have sought to secure some improvement in the pitifully inadequate standard of relief which was in existence in the city of Baltimore and in the State of Maryland. We have also undertaken to see that the existing standard of relief was actually maintained to the unemployed workers.

We have had, aside from these emergency activities, a long-term program, legislative in nature, in which we have urged the creation of jobs through Public Works and through similar activities, and on our program of legislation we have included unemployment insurance. We are strongly in favor of unemployment insurance, and still we wish to emphasize that in our support of unemployment insurance we—

and I am speaking of the great majority of the members of the organization—have nothing to gain from unemployment insurance, so far as the present situation of our members is concerned. Very few of them can hope to benefit from any plan which now seems likely to be adopted, for, if founded on so-called "correct actuarial principles", such legislation holds out no early hope of aid to the victims of the present crisis. In order to become eligible for such benefits, most of our members will need to secure industrial jobs not now available or in prospect. After securing employment, they must work long enough to qualify them to receive unemployment compensation. This means that at least several years must elapse before any of our members could be thus aided; in the meantime we must continue to depend, as at present, on private charity or public relief, that is, on the American dole, which is no adequate substitute, either for wages or for the prospective future unemployment insurance benefits. None the less, we favor unemployment insurance, because it would provide a better means of caring for the victims of future depressions, and for such value as it might have for stabilizing employment and relieving seasonal and temporary unemployment.

We should prefer that a single unified unemployment system be developed on a national basis, under Federal control. However, in view of constitutional limitations which now hinder the Federal Government from dealing with the problem in this way, we favor such Federal legislation as will most effectively encourage the development of adequate compulsory State unemployment insurance systems. We believe that the Wagner-Lewis bill, in its basic features, represents a practical and effective measure for promoting the early development of unemployment insurance in this country.

This bill will provide a strong financial incentive to employers to support unemployment insurance rather than to oppose it. The present opposition to State legislation is largely based on the fear that unemployment insurance might unduly increase the cost of production in a particular State as compared with the cost in more backward neighboring States. Many business men concede the desirability of unemployment insurance, but oppose its adoption in their own States, in advance of States where their competitors are located. The effect of the Wagner-Lewis bill, if passed, will be to eliminate this obstacle to the passage of State legislation, for all employers in the country will be subject to the same tax, whether or not their States possess unemployment insurance laws. The provision in the bill allowing credits for contributions made under State laws should cause a drive for their enactment, for, as stated by Senator Wagner, "the inhabitants of the several States will prefer keeping their money at home rather than contributing it to the Federal Government."

Last year the State of Maryland provided a striking example of the difficulty of securing the enactment of unemployment insurance laws, under present conditions. Maryland was one of the few States where unemployment insurance came close to adoption in 1933. A carefully drawn bill was passed by the house of delegates, and only failed of passage in the Senate by a margin of a few votes. This bill was strongly opposed by business interests of the State, largely on the ground that such a law would handicap Maryland manufacturers in interstate competition. It is highly probable that, if the Wagner-Lewis bill had been in operation at that time, the opposition to the

proposed State law would have been negligible, and the bill would probably have been passed by the Senate and put into operation.

The Peoples' Unemployment League of Maryland desires, therefore, to go on record as supporting in principle the Wagner-Lewis bill. We should prefer to see this bill adopted by Congress in its present form, rather than to see no action taken at this session of Congress.

At the same time, we desire to point out certain features of the Wagner-Lewis bill which we should like to see strengthened. The suggested amendments relate chiefly to the standards set up for acceptable State unemployment insurance laws, and are as follows:

First, compulsory contributions from employees to the insurance funds should be prohibited, in view of the excessively low wages now paid to most employees in most industries—wages which fail to provide more than a minimum subsistence income for many millions of American wage earners. Under such circumstances, it is socially unwise to further depress living standards by requiring employees to contribute to the insurance funds. It is also economically unsound, in that it would tend to reduce mass purchasing power. It may be, however, that your committee will feel that it is necessary to follow European procedure in this matter, rather than to be governed solely by the facts as to American wage-scales and the so-called "American standard of living." In that case, we would urge that contributions from employees be limited to those receiving wages sufficient to provide a comfort standard of living, and that employees receiving substandard wages be exempted from payments to insurance funds. We believe that the adoption of this device might have some value for stimulating the raising of wage scales. In any case, it would protect the lowest-paid workers from wage deductions which it is socially and economically unwise to require.

Mr. LEWIS. Have you any figures defining your substandard?

Mr. MEAD. I am sorry, I have not.

Mr. LEWIS. You have no figures on that proposition?

Mr. MEAD. No. My specific suggestion on that point would be that, in determining the standards, the very carefully prepared statistics of the United States Bureau of Labor Statistics be taken as a basis for the purpose, being, of course, adjusted to present price conditions which have changed since they were made. There is ample evidence in those studies by the Department of Labor that this statement is conservative, and that we are not at all over-stating things in reference to the prevailingly low wages as compared with the cost of living.

If questioned as to how this proposed distinction would be worked into the structure of the proposed State unemployment insurance laws, we would propose this: That in the case of higher paid employees, their contributions should be set up at whatever percentage is actuarially sound, and that this same percentage found to be actuarially sound as a contribution from the higher paid employees be added in full to the employers' contribution for the lower paid classes of workers.

Now our second proposed amendment is that the minimum weekly unemployment compensation should be increased from the present amount of \$7 to an amount at least sufficient to provide a minimum subsistence income. On that point I should like to say, that if we are going to institute in this country a system of unemployment insurance,

it seems unfortunate, to say the least, not to have the unemployment insurance benefit large enough to really provide for the families of the unemployed workers and there is real danger that we may pass a lot of State laws which set up such low compensation rates that those receiving them will be compelled to resort to relief to supplement the insurance payments, or else that they will be compelled to suffer a process of slow starvation and malnutrition, as millions have had to do during this present crisis.

The third proposition is that the waiting period before unemployment insurance benefits are payable should be drastically reduced. There should preferably be no waiting period, or at the outside, not over 1 week. An unemployed worker, unlike an idle machine, must continue to eat in order to live. It is unjust to compel him to bear the economic burden of unemployment, even for 1 day, when his idleness results from the failure of industry to provide jobs.

Any malingering growing out of this apparently drastic proposal can be prevented by providing that unemployment compensation shall not be paid to workers who refuse to accept suitable jobs when available. This device has been widely used in unemployment insurance laws abroad.

The maximum period for benefit payments should be extended at least to 26 weeks. This will take care of most seasonal unemployment. Even with such an extension, the period will still be too short to take care of most of the distress incident to a prolonged period of depression. There is now available an impressive mass of evidence that unemployment is likely to last a year, or even 2 or 3 years, for a large proportion of the victims of a depression such as that under which we are still suffering. No unemployment insurance plan is adequate, which fails to protect the workers against cyclical or depression unemployment, as well as temporary, seasonal, and technological unemployment.

Mr. LEWIS. You are familiar with the industries in Baltimore; name some of the seasonal ones, where the idle period might run as high as 26 weeks, or 20 weeks.

Mr. MEAD. Which are the seasonal industries?

Mr. LEWIS. Yes; the seasonal industries in Baltimore. Thirty or forty years ago building was a seasonal industry; it is not now so much, is it?

Mr. MEAD. The building industry is not now a seasonal industry?

Mr. LEWIS. It is not so much as it was formerly?

Mr. MEAD. It is pretty seasonal. I was on the point of naming that as the outstanding example of a highly seasonal industry.

Mr. LEWIS. Have you some others in mind?

Mr. MEAD. Not so much seasonal as casual, as in the case of dock workers; in the port of Baltimore, I should not be surprised if their number of working days during the year was not much over half of the average number of working days and that many run less than that. They often have a waiting period of perhaps a week or more and then a day or two of intensive work.

Mr. LEWIS. You may proceed with your statement.

Mr. MEAD. To summarize our position, we strongly favor the amendment of this bill:

By banning compulsory contributions of employees to insurance funds, or by strictly limiting such contributions to the better-paid

workers; by increasing materially the minimum rate of unemployment benefits; by eliminating or drastically reducing the waiting period; and by largely extending the period during which unemployment benefits are to be paid. Such changes are needed to provide any really adequate security against the hazards of unemployment, without lowering the present inadequate standard of living.

But we desire also to emphasize that, rather than see no Federal legislation enacted this year, we should prefer to see the Wagner-Lewis bill adopted as it stands. For we believe that it is basically sound in its main features, and will pave the way for more adequate legislation in the future. I thank you, Mr. Chairman.

Mr. LEWIS. Thank you, Mr. Mead.

STATEMENT BY O. W. WHITMORE, REPRESENTING THE PEOPLES' UNEMPLOYMENT LEAGUE OF MARYLAND

We know that unemployment insurance is a highly technical subject and we do not come as insurance experts to advise you as to details. We do come, however, as experts in suffering caused by unemployment, and we strongly urge that some kind of Federal unemployment insurance bill be promptly enacted as a safeguard against a repetition of the suffering and humiliation now suffered by the unemployed.

Our present relief system cost over \$750,000,000 in public funds last year, in addition to vast sums given in private charity. The result is inadequate, humiliating, and degrading.

The unemployed as a whole do not want relief. They want jobs—a chance to earn a self-respecting living at work that is socially valuable. And they would like that work protected by sound insurance so that when it gives out, because of the vagaries of our unplanned system of production, with its cycles of surplus and scarcity, they can receive, not charity, but earned compensation in the form of insurance checks paid for premiums earned by their labor. If business can create a surplus in good years from which to pay in bad years those who have invested only money it is not unreasonable to ask business to create a similar surplus for the benefit of those who invest their lives.

As between the various bills that have been suggested we are inclined to favor the Wagner-Lewis bill because its Federal tax credit plan will act as an incentive to State action and somewhat mitigate the fear of those who have opposed unemployment insurance in the State legislatures because of the extra burden that other plans might place upon those States which acted first. One hundred and fifteen bills were introduced in State legislatures during 1933 and failed because of such opposition, sometimes by a small majority.

However, more important to us than any particular bill is the principle itself. We would like to see some Federal unemployment insurance bill enacted to establish the principle and we would rather have the first bill enacted, excessively conservative and safe than run the risk of seeing the principle discredited by an unsound bill.

We believe that all unemployment insurance should be compulsory: First, because the burden and risk should be spread as widely as possible, and, second, because it would be unfair to expect the most generous employers to be handicapped in their competition with the most hard boiled as would be the case if it were left to the good will of the companies themselves.

There has been some opposition from business to the principle of unemployment insurance on the ground that it might tend to create a large group of social parasites. This is a clear case of "straining at the gnat and swallowing the camel", because the same national association of manufacturers which is so alarmed lest the payment of half wages for a few weeks will make parasites out of men accustomed to lifelong toil cheerfully pay out money in the form of dividends and bond coupons to the most useless crowd of parasites—the investing class—men who live exclusively on the toil of others.

If industry is honestly afraid of parasites they had better stop paying dividends and coupons. They have in fact been compelled in recent years to suspend such payments to a large extent due to the employer's refusal to pay adequate wages and to take care of involuntary unemployment. Purchasing power must be built up before the investing parasites can go on living on other peoples.

work and unemployment insurance would go a long way toward improving purchasing power.

For these reasons we respectfully submit our request that your committee give favorable consideration to the Wagner-Lewis bill with amendments as suggested or failing that, that you report favorably some form of unemployment insurance at the earliest possible date that the principle may be established.

STATEMENT OF M. C. HARRISON, MEMBER OF THE LEGISLATURE OF THE STATE OF OHIO, CLEVELAND, OHIO

Mr. LEWIS. We will next hear from Senator Harrison of Ohio.

Mr. HARRISON. I am a member of the State Legislature of Ohio from Cleveland. My connection with this particular subject began some years ago when I was a member of the Cleveland Committee on Unemployment Insurance which began to study this problem, and eventually, at their request, I drafted the bill introduced in the eighty-ninth general assembly of Ohio known as the "Reynolds bill." As a result of the interest created by that bill, the Governor of Ohio, George White, recommended the appointment of a commission on unemployment insurance which conducted hearings and finally presented a report which, I think, is the most far-reaching and perhaps contains as far-reaching conclusions as any study yet made in the country on that subject.

Based upon that background, and being guided almost entirely by the proposed bill presented by the commission, I finally presented a bill in the present session of the general assembly, the ninetieth, to set up a system of unemployment insurance in Ohio, and it is from that viewpoint that I wish to speak very briefly for the purpose of this record.

It seems to me that the immense significance of this bill is not in the standards that it sets up or even in the amount which it collects as excise from the employers. The immense significance of the bill is the fact that it cuts away at one stroke, if I may use that expression, the principal valid argument advanced against unemployment insurance. I say this because, having had some personal experience with the matter in the Ohio Legislature—and I must be forgiven if I use the personal pronoun too frequently—but when this bill was introduced we held hearings and they were hearings which were far better attended than was the case of any other legislative activity, the one argument which was incessantly and insistently repeated was the argument that it was not fair to penalize Ohio industries in competition with the competitive business across the State line. I think the experience we had with the workmen's compensation acts where they had to be introduced in one State at a time, showed that that argument was not so serious as the employers would have had us believe. Whether it is a valid argument or not, with the members of the Ohio General Assembly it was immensely persuasive.

Our bill passed the House at the recent session, and when it got into the Senate it would have passed the Ohio Senate and would be the law of Ohio today, and it would be the first real unemployment insurance law on the books, had it not been for the fact that George White, who is Governor, and who was elected on a program committing him to unemployment insurance, and who personally accepted that program as a part of the pledge on which he ran, simply concluded that this was not the time to carry out that platform pledge

and used all of the vast influence of his office to defeat that bill, and was able to prevent its being passed by the Senate.

It seems to me all the more important to realize that this bill does furnish the one weapon which can meet that kind of argument for incessant delay. I suppose it is usual to say with respect to legislation of this kind that this is not the right time, very much after the fashion of the Irishman whose roof needed fixing and who used the excuse that it did not need fixing when the weather was dry and that it could not be fixed when it was wet. In Ohio we have found that argument is one which has been employed by the Governor and has prevented Ohio from being the first State to have adequate unemployment insurance laws. Personally, I feel that the Wisconsin law offers very little without considerable broadening and I doubt further if it would prove satisfactory.

I want to give my testimony from my personal experience with our effort to get this sort of legislation passed, when everyone concedes that unemployment insurance ought to be set up at the beginning of the industrial cycle; we are emerging from the bottom; if we are to have an adequate reserve, it ought to be built up during the entire period of the rise; that is the time for building up the reserve; it is the time in Ohio, and it is the time in every other industrial State. Unless we have some means of meeting that argument, we will be faced with incessant delay, irrespective of what the standards are. I am not at all concerned about the \$7 a week standard; it is not adequate. If this bill has anything like the vitality I believe it has, if the system can once be put into effect, I am confident the current will eventually cut its own channel and enlarge the amount of the compensation until it is entirely fair.

Mr. LEWIS. I happen to be much interested in that subject. I introduced, when I was a boy, 32 years ago, the first workmen's compensation act on this side of the Atlantic, in the Maryland Senate.

Mr. HARRISON. I was told that at lunch, and I congratulate you most warmly.

Mr. LEWIS. I will ask you not to read the bill; it was so minimum in its requirements that it would hardly merit recommendation. I cannot help thinking that two States, even now, live without compensation laws.

Mr. HARRISON. That is true; I can cite with that the experience of Ohio. The early Ohio compensation act was a voluntary act, which was unsatisfactory and incomplete, and as amendments have taken care of those situations, perhaps it will with this bill also. If we can secure in this bill the answer to the argument which has defeated us in Ohio this year, we have not the slightest doubt that within 12 months—I do not mean we would have to wait for the general session of the State Legislature of Ohio—Ohio will have an unemployment insurance bill in force. That, it seems to me, is the function of this bill; on its face it is an excise tax bill, but its collateral and important significance is the fact that it will enable us and all the other States to get what we so much need.

Mr. LEWIS. Senator, I have just a few questions with regard to the Ohio bill. Did your bill apply to corporations alone?

Mr. HARRISON. We followed the workmen's compensation bill which covered those employing three or more persons.

Mr. LEWIS. And do you recall what the waiting period was?

Mr. HARRISON. The waiting period was 3 weeks. Of course, those are matters of some difference of opinion; it was my personal opinion that it was a good deal better to allow a waiting period adequate to make sure that the man who was unemployed could not be placed in any other employment, rather than incur the enormous expense of many small claims.

Mr. LEWIS. And what was the length of time of relief?

Mr. HARRISON. We provided that as a maximum the man who was eligible would be entitled to the benefits for 16 weeks in an amount not to exceed \$15 or a maximum of one half of his earnings. As Dr. Rubinow pointed out, that turned upon the fact that we concluded that a total premium collection of 2 percent from employers and 1 percent from employees was probably all that could be imposed on industry. In my judgment we could raise that.

Mr. LEWIS. Did the act provide for the 2- and 1-percent tax?

Mr. HARRISON. One percent of what the employee got.

Mr. LEWIS. Did you have \$7 minima?

Mr. HARRISON. No; for total unemployment, a man would receive one half of the average weekly wage, not to exceed \$15 per week. We followed considerably the Ohio Workmen's Compensation Act in the thought that industry in Ohio, at any rate, is quite familiar with the general routine organization of that fund, and we therefore followed the generalities of that act with respect to the unemployment fund.

Mr. LEWIS. For the purpose of that test, a person would have had to have been previously employed?

Mr. HARRISON. Precisely.

Mr. LEWIS. What did you do with the problem of the boy 16 or 18 years of age, who of necessity has to go to work and who has the ability to contribute to the family fortune?

Mr. HARRISON. He is in the same position as the man who has been out of work so long he is not eligible. We made it a prior requisite that a man must show that he has been employed and has paid premiums into the fund 26 weeks out of the 52 preceding weeks or 40 weeks out of the 2 years preceding, before anyone can come into the the State and become eligible. Before the young man could be eligible, he would have to come on the rolls and make his own contributions for that length of time. We are contemplating a real insurance system, where the benefits have a definite and assured relationship to actual premiums paid in.

Mr. LEWIS. Do you happen to remember the British provisions on the previously unemployed youngsters?

Mr. HARRISON. No; I do not.

Mr. LEWIS. You heard the discussion this morning by Professor Slichter of the desirability, from his point of view, of substituting the trade as the unit, rather than geographic divisions by States; have you had that under consideration, to any degree?

Mr. HARRISON. Yes, sir; to some extent. I see precious little advantage in the suggestion which he makes; I can illustrate it in this fashion: In workmen's compensation there has been a fair opportunity to compare, State by State, the different systems for the protection of men injured in the course of employment. I think Ohio has the unique distinction of being about the only State in which private insurance companies are not permitted to underwrite the

risks. We do allow employers individually to post a bond, but we do not permit anyone to make a profit out of writing that sort of business.

It has been my observation that when you permit the carrying of this social obligation by the employers direct, and this is especially true when the obligation is handled by private insurance companies, there is more chance of technically defeating the claim. Then we feel that if you permit a member organization to carry on this obligation, it cannot be of any benefit to the industry as a whole. Under our Ohio act we have permitted the premium rate to be changed in accordance with the experience of the particular employer. We believe thoroughly that to some extent, and the percentage of that is still an indeterminate matter, the hazard of unemployment can be increased or decreased by the particular employer concerned. If this is true, the premium ought also to be somewhat changed; it will fluctuate with the amount of stabilization an employer can put in his industry. We proposed, at the end of a 3 years' preliminary period after the law became effective, that the premium rate for certain employers may be rated as low as 1 percent and up as high as 3½ percent, instead of the flat horizontal 2 percent. In my judgment, that is not far enough. I think there ought to be a further range of one or one and one half of 1 percent. If that principle is accepted, then the employer is getting all the individual protection he is entitled to. If, by showing he is giving attention to stabilization, if he can get his premium reduced to the minimum, he is getting all the advantage he is entitled to. I doubt if there is anything in the suggestion of Professor Schlichter. I think the advantages can be obtained in what we call our Ohio bill.

Mr. Lewis. Thank you, Senator, for coming here and giving us the benefit of your experience. The committee will now adjourn until 10 o'clock tomorrow morning, when we will meet in the committee room of Elections Committee No. 1, room 1236 of this building.

(Thereupon, at 3 p.m. the committee adjourned until 10 a.m. tomorrow, Tuesday, Mar. 27, 1934.)

UNEMPLOYMENT INSURANCE

TUESDAY, MARCH 27, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. David J. Lewis (chairman) presiding.

Mr. LEWIS. Ladies and gentlemen, the subcommittee hearing witnesses on the unemployment insurance bill will resume its session.

The first witness on the list this morning is Hon. Edwin S. Smith, of Boston, Mass., representing the Department of Labor and Industry of Massachusetts.

STATEMENT OF HON. EDWIN S. SMITH, BOSTON, MASS., COMMISSIONER, DEPARTMENT OF LABOR AND INDUSTRIES, MASSACHUSETTS

Mr. LEWIS. Mr. Smith, the general discussion of the principles involved in this subject, especially on the part of the friends of the legislation, the committee believes has already been ample. So if you would direct your remarks to specific information that will be of assistance to the committee, I think you will serve our purpose to better advantage.

Mr. SMITH. I will be very glad to do so, Mr. Chairman, and I shall also be very brief, with the expectation that if there are any particular points that the committee would like to have developed they can question me.

About 3 years ago the Massachusetts Legislature created a body known as the "Special commission on the stabilization of employment." The chairman of that commission is Dr. Stanley King, president of Amherst College, who had hoped very much to be here today, and I am merely pinch-hitting in his place.

The other members of the commission include Dr. Compton, president of the Massachusetts Institute of Technology.

Mr. LEWIS. You mean the physicist?

Mr. SMITH. He is a brother of the physicist. I think this Dr. Compton is also a physicist, but he also is the president of the Massachusetts Institute of Technology.

The commission membership also includes two employers, Mr. Dennison and Mr. Kendall, both of whom are now members of the Industrial Advisory Board of the N.R.A.; and two representatives of labor, the president of the State Federation of Labor, Mr. Moriarity, and Mr. La Fontaine, who represent the railroad brotherhoods, and myself.

After 2 years' work this commission has brought in a bill providing for unemployment reserves, modeled very largely on the Wisconsin act.

I think the committee will be interested in what can only be an estimate of the prospects of the legislation in Massachusetts, but I think it is a reasonably sound estimate.

Last year, when the bill was presented labor was for it. The organized employers, as represented by the Associated Industries of Massachusetts, were quite definitely against it.

The hearings on the bill this year do not take place until Wednesday of this week, so one cannot say positively what the line-up will be. But from numerous conversations and meetings, in which I and other members of the commission have participated, I think it is fair to say that the attitude of the employers in Massachusetts, at least the organized employers, has quite noticeably softened toward the bill.

I think there will be a number of employers who will appear on behalf of the bill, and it is not beyond the realm of possibility that the Associated Industries may support it, although it is too early to say.

The bill, as I have said, is modeled very largely on the law of Wisconsin, although there are some variations.

Primarily, it has adopted the principle of reserves instead of insurance. The employer is asked to make a contribution of 2 percent of his pay roll, that money to be expended in accordance with the benefits set forth in the bill, for compensation to his own employees when they are out of work, and the fund of a particular employer is not to be used for payment to employees of other concerns.

The bill includes, as does the Wisconsin law, the provision whereby the employers' contribution——

Mr. Lewis (interposing). At this point let me ask you this question: What is the minimum number of employees that impose the obligation?

Mr. SMITH. Ten.

Mr. Lewis. Would your bill contemplate that the employer with as few employees as 10 should carry the necessary reserves and give no additional security?

Mr. SMITH. Yes; those are the terms of the bill, and the reason that the figure 10 was adopted rather than the figure 5, let us say, has largely to do with administrative difficulties.

Each employer must keep a separate account with the State, and we felt that, initially, at least, it was desirable not to get the administrative machinery too complicated by bringing in the smallest employer.

By setting the minimum at 10, we leave out a great many individual employers, but a very small proportion of employees.

Mr. Lewis. Have you an estimate of what that proportion omitted would be?

Mr. SMITH. There was an estimate made last year, but I am not sure that I have the figures correctly. However, I think in the manufacturing field we would leave out about 40 percent of the employers and about 2 percent of the employees. That may not be accurate, but the figures are something along that line.

After the employer has built up a fund which represents so much reserve per employee covered by the plan, his contribution drops

from 2 percent to 1 percent. And when that fund is still higher the contribution ceases until it falls again below the fixed point.

Mr. LEWIS. What are the accumulations represented, to provide for the changes of tax?

Mr. SMITH. At \$55 per employee covered by the plan, the contribution drops from 2 to 1 percent. At \$75, it ceases entirely.

As regards the relationship of the Wagner-Lewis bill to this proposal in Massachusetts, we feel that the provision which gives the employer credit in the amount by which the contribution is reduced as well as by the actual amount of the contribution itself is important, because we are very anxious to preserve in our bill the incentive to the employer to regularize his employment by giving him a differential in rate when he has succeeded in preserving steady employment.

Massachusetts, as you gentlemen undoubtedly know, has been a pioneer in labor-legislation matters for many years. As regards the textile industry, there is a considerable body of opinion which takes the position that Massachusetts has suffered very definitely from having gotten too far out in the van. There is also a tendency to feel that Massachusetts has very much benefited by the provisions of the N.R.A. because the textile code does tend to equalize conditions between the North and the South.

For that reason, if for no other, Massachusetts employers, I think, would be exceedingly interested in a bill of this sort, by the terms of which Massachusetts would not again have to be in the position of marching at the head of the procession, with no certainty as to when other States were going to join in.

As to the cost of the proposed 5 percent tax in terms of percentage, of the value of product, I had some figures drawn up yesterday before I came down here. It ranges, as far as Massachusetts is concerned, from four tenths of 1 percent in one industry, in which the labor cost is the smallest proportion of the total, to as high as 1.3 percent.

I mention those figures because the 5 percent looks somewhat less alarming when reduced to terms such as those.

I do not know, Mr. Chairman, whether I have been sufficiently specific about the provisions of the Massachusetts bill. I could go into a great deal of detail in reference to them, but they are so similar to the Wisconsin law that I do not think it is necessary to take the time of the committee to do so.

I can assure you that the already favorable sentiment toward the bill will be immensely strengthened by a Federal provision of this sort which would guarantee to us that we could go ahead with more assurance that others would follow.

Mr. LEWIS. When you speak of the textile industry, and of Massachusetts, perhaps because of its progressivism having suffered a special burden, what did you have reference to?

Mr. SMITH. I was thinking of the fact that Massachusetts for years has had on its statute books a law prohibiting the employment of women after 6 o'clock at night in the textile industry. It is frequently charged that that is a discriminatory law because it does not apply to any other industry in Massachusetts.

As regards the other industries the limitation on night employment of women is 10 o'clock at night.

Of course, the textile mills do, as you know, utilize the labor of women to a large extent, particularly in certain operations, and it is undoubtedly true that Massachusetts has suffered for that reason.

One of the principal handicaps under which the textile industry of Massachusetts has suffered is this so-called "6 o'clock law", and that, it has been felt, and I think rightly felt, has been a distinct handicap to Massachusetts industry.

As a matter of fact, when the textile code was adopted organized labor came out and supported a measure which provided that during the life of the code, this 6 o'clock law should be suspended under regulations to be issued by the commissioner of labor and industries. The feeling was that the National Government had taken a step forward in liberal labor legislation which was so pronounced, that Massachusetts, during this period could afford to waive this particular provision in its law without feeling that the rights or interests of labor were being sacrificed.

The 2 percent which is set forth in this Massachusetts bill, I personally feel is essentially a beginning. Under its terms the amounts of benefit that can be paid are small. I think for that reason, to set as a goal a higher percentage as has been done in this Federal bill, is distinctly to the point.

In other words, the most optimistic person from the employers' point of view would hardly suppose that permanently at least a 2 percent contribution by the employers would be sufficient to take care of the needs of the unemployed.

Mr. LEWIS. Under the terms of this bill it is generally understood, I think, that the State legislatures might adopt varying plans, even more liberal plans of treatment, provided none of the minima requirements are violated.

In New York State, for example, where Mr. Swope, a principal spokesman before this committee, has large industrial activities, if the New York Legislature should prefer to adopt a plan following the British plan, the legislature could do so under this bill, subject always to the condition that the minima contributions and conditions of the bill should not be overlooked.

Mr. SMITH. Yes, sir; and that is a very wise provision, in my estimation.

Like the other members of the Massachusetts Commission, I am sold on the idea of unemployment reserves, and shall advocate that as far as Massachusetts is concerned.

But I should be immensely interested to see other forms of legislation tried out in other States. I think a variation in kinds of unemployment compensation laws offers a splendid opportunity for experimentation and possible modification.

Mr. LEWIS. The bill might even carry a provision for a just division of the available employment, that is, the State bill.

Mr. SMITH. Exactly; I should think it might well do so.

There is one point I neglected to mention, but which I think is of some interest.

In opposing the Massachusetts bill last year the organized employers stated to the legislature and to labor and those interested in this bill that they were going to begin a very intensive campaign to

establish voluntary private plans for compensation, which would do away with the necessity of any State compulsory legislation.

They went about that task with real earnestness and zeal, but it was a complete flop, to use the vernacular. They themselves admitted it.

Whether it was because, as was stated, the energy of the employers was too much used up in thinking of codes, or for some other reason, the fact remains that this propaganda effort did not succeed in starting but a very small number of private plans. This, of course, was exactly what the commission had contended when it presented its original bill, namely, that the movement for private plans was doomed not to progress very rapidly.

Mr. Lewis. We thank you very much for coming this distance to help us, Mr. Smith.

Is Mr. Albert B. Hutzler, of Baltimore, present? (After a pause.) Apparently not.

Miss Magee of Cleveland, Ohio, is here, I believe, and we will be glad to hear her at this time.

**STATEMENT OF MISS ELIZABETH S. MAGEE, CLEVELAND, OHIO,
SECRETARY OF THE CONSUMERS' LEAGUE OF OHIO**

Miss MAGEE. Mr. Chairman, I am secretary of the Consumers' League of Ohio, and in that capacity have been connected with the movement for unemployment insurance in Ohio since 1928.

When the Governor's Commission on Unemployment Insurance was appointed in Ohio, I was made the executive secretary and director of research of the commission, which was in existence for slightly over a year, and from two members of which you heard on yesterday, Rabbi Silver and Dr. Rubinow.

Before I became director of that work of the commission I spent the summer in England making by no means a thorough study, but investigating during the 3 months I was there the operation of British unemployment insurance, having studied the law covering that insurance prior to that time in some detail.

I believe the thing which I want to say, the most important thing, is that the introduction of this legislation in Congress has given us in Ohio, those of us who have been interested in unemployment insurance and who have worked hard for it, the greatest ray of hope that we have had.

I believe that the enactment of this legislation at this session of Congress, would remove the greatest obstacle to enactment that we have encountered. We believe that its enactment would be, without reservation, the most significant thing that this session of Congress would have done.

I think you have had many good arguments showing why we should have unemployment insurance, and it is not necessary for me to elaborate on that.

But there are a few points, I believe, that have been developed in our study that may be of significance.

In the first place, there is the matter of the type of problem presented by unemployment. During the depression, in the latter years, we have become unemployment conscious, as a Nation. And I

believe that too much of our thinking has been directed toward the unemployment that is a factor of the depression, and not enough of it has been given to the study of the problem which workers face in so-called "good times."

When we began to examine the figures which the Bureau of Labor Statistics collected in Ohio, showing the monthly fluctuations in employment and which the United States Bureau of Labor Statistics tabulated just recently for a period of 14 or 15 years, we were impressed by the fact that there was a margin sometimes of as much as 13 percent between the month of highest employment in a year and the month of lowest employment. That was true in 1928, which many of us go back to rather pleasantly, as being a very good, comfortable year.

Mr. West. As a matter of fact, so far as labor is concerned, there was developing an increased volume of unemployment, amounting to somewhere between 2 and 3 million persons in 1928, was there not?

Miss MAGEE. Yes. Of course, there were minor depressions throughout that peak time, before 1929, and even in the best years there was a 7 or 8 percent margin between the months of highest and lowest employment.

The easy answer is that it is seasonal unemployment, but in addition, there is a great amount caused by the change in purchasing habits and better industrial processes.

I have had that brought to my mind recently in connection with the operation of our new minimum wage law and its effect on the workers in laundries.

Of course, it is obvious that when people buy electric washing machines and install them that probably means more employment for the people who manufacture electric washing machines, but it probably also means less employment for the girls who work in laundries. We can not say that is a bad thing because that is part of the march of progress. But the bad part of that is that the march of progress, the change from one habit to another habit, is paid for almost entirely by the group of workers who are thrown out of employment.

Mr. Lewis. May I interpose a parallel illustration?

Miss MAGEE. Yes.

Mr. Lewis. We have been justifying that concentration of the cost upon those least able to bear it, on the theory that society, on the whole, was benefiting. When a city finds it desirable to cut a new street across from one avenue to another, to promote the general welfare though the owner may object stoutly, he is evicted all the same, because the interests of the city require this improvement. But he is not evicted until just compensation is made to him for the property taken away.

To deny this worker the same indemnification or protection when he suffers for the same purpose simply means to deny him equality before the law. That has been my fundamental view of this matter.

Miss MAGEE. It seems to me that is an excellent parallel, Mr. Lewis.

I would like to make another one, and that is that we have recognized the fact of the cost of what happens to the worker, to a certain extent through the enactment of workers' compensation. It took a

long period of years to get that idea over, and it is not yet completely over throughout the United States.

But we have recognized it to this extent, that most of our States make it possible for employers to figure in the cost of production the cost of accidents, or a part of the cost of accidents.

We do it through a payment which they must make into workmen's compensation funds. Of course, it is not the whole cost of an accident, because the worker not only suffers real financial loss, but he has to endure also physical and mental suffering. But we have recognized the principle.

A curious result has occurred. If you go into any industrial neighborhood—and I am sure it is not only true in Cleveland, but elsewhere—if you go into any industrial community you will find here and there a family where the father had suffered some industrial injury, and the family is going on. They are able to pay their rent, and they are supplementing their savings, if they have any, by this regular, sure payment which comes from the State workmen's compensation fund.

Right next door to that family, with the same kind of background, is a family where the father has not had an injury. He has not had his finger, or his toe, or his foot cut off, but he has had his job cut off, and his family is going through all this distressing experience prior to asking for relief, with the exhaustion of their savings, and with nothing coming in with which to pay their rent, to pay for their groceries, and all that kind of thing.

That, it seems to me, is a parallel which shows up the absurdity of our failure to recognize unemployment as a cost of production.

I want to make a brief comment, Mr. Chairman, on the 5-percent tax. We analyzed, in our Ohio study, from the figures of the census of manufactures, the same type of material to which Mr. Smith referred the percentage added to cost of production by a tax on pay rolls. We did not figure in the cumulative effect of the additional cost of one product that goes into the making of another product.

I have gone over the figures of the 1931 census of manufactures, and found that in that year, which was a bad year for production, that the manufacturing industries of Ohio spent \$593,000,000 a year in wages, and that the value of our products during that time was \$3,106,000,000.

Taking a 5-percent tax on that wage bill, it would be approximately \$29,000,000 paid into the fund, presuming that Ohio was sensible enough to pass a law putting 5 percent into that fund, and that would amount to nine tenths of 1 percent of the value of the product, or 90 cents on \$100.

I again emphasize the fact that we have not worked out the figures of the cumulative cost in certain industries.

Mr. LEWIS. That is very difficult.

Miss MAGEE. It is very difficult.

Mr. LEWIS. It is not impossible by any means.

Miss MAGEE. In addition, I think it is well to remember that in the making of such a general estimate some of the wages would not be subject to the pay-roll tax, whereas we have to take the whole amount.

Moreover, the proportion of labor costs differs in different industries. Take, for instance, the rubber-tire industry, which is one of our biggest industries. My estimate in that case is something like eight tenths of 1 percent.

Mr. LEWIS. You mean that the wage element is so small in tire making?

Miss MAGEE. The wage element—when you take the 5 percent, it comes to eight tenths of 1 percent of the value of the product.

If you take the boot and shoe industry, it comes to 1.2 percent of the value of the product. In the iron and steel industry it is approximately \$1 on \$100, or 1 percent.

It seems to me when you remember the very important element in this bill, namely, that the employers are asked all to pay in the same proportion, then we have no great argument against the 5 percent cost to employers, because the employers are perfectly able to pass it on in their price.

They are not handicapped by the fact that in one State they are having to pay the tax and in another State they are not. That needs to be borne in mind.

The thing, to my mind, that is most important is this, that we do not have enough experience in this country to determine exactly the percentage of pay roll which will be needed. We have certain unemployment statistics, but we know that we do not know the duration in individual unemployment, or the distribution of the duration of unemployment.

At the beginning, it seems to me, to be the part of wisdom for us to have a very good margin of safety, and to set up an adequate fund.

We do not want to set up machinery under which we will not be able to make decent payments, thus having the public feel that the whole thing is no good.

We made a computation of the British experience. When, a few years ago, people were talking about the dole as the answer to the situation, a great deal was made of the fact that the debt incurred in Great Britain went up to \$500,000,000. Not much was said about what the unemployment fund had paid into the Treasury, in the interest on that money which had to be borrowed.

We made an estimate of the amount which that would have been if it had been spread over the 10 years in which the debt was accumulating, and we discovered that if there had been paid into the fund $1\frac{1}{4}$ pence per week extra per contributor—that is, worker and employer and the State, during that time—they would have been perfectly solvent.

I should say that one leaf we can take out of the British experience is to have a good margin of safety before beginning, because the thing can be corrected by taking advantage of experience.

Mr. LEWIS. You have some facility and experience in working on these matters. A comparison between the economic benefits under this bill and the benefits accorded under the British act would be interesting, if you could send it to the clerk of the committee.

Miss MAGEE. I will be glad to do that. Of course, conditions change, as you realize.

The point I want to make in conclusion is merely to make a comment on what Professor Slichter said yesterday, when he advised delay as to the effective date of the bill. It seems to me that is an awfully dangerous piece of advice, not only because it is easy for all of us to delay to do anything but also because right now we are in a most strategic situation. The employment index, so we are told, is

very definitely going up. We give a year from the first of July before the tax accumulates. Unless something very disastrous happens, I should suppose our employment index would be a good deal higher, that the rise would be steady.

That is the ideal time at which to begin to accumulate. It is the ideal time for any individual who has any thrift to begin to save.

It is the ideal time for us to make effective our social thrift and foresight.

I think the statement that Mr. Slitcher made was particularly open to criticism when he said that might result in ill-advised and hasty action. If Congress adjourns, you will give a full year and a little over before the tax begins to accumulate.

Mr. LEWIS. With a year's notice to the lawmakers of the United States that they have that much time ahead.

Miss MAGEE. Yes; and with most legislatures meeting in regular session, and with the possibility that others could meet in special session.

Our commission was in existence for a year and 2 months, and 3 or 4 months' time was involved in the necessary editing and publication of the reports. The real work of the commission was done in about nine months.

We made a rather exhaustive study, because it seemed to us that that was what was needed. A lot of water has gone over the wheel since that time.

The States in which the subject has never been discussed have the advantage of the reports of the various commissions, and of the work that has been done. We are not starting anew, without the advantage of the experience of other countries and of the various States.

Mr. LEWIS. How many States have labor departments or commissioners?

Miss MAGEE. There were 43 who sent representatives to a recent conference called by Miss Perkins. I would presume most of them have commissions of some type.

Mr. LEWIS. They would feel officially charged with the duty of drafting preparatory legislation.

Miss MAGEE. I should think so; and the legislatures of course, have labor committees, and there are organizations in many States, unofficial organizations, interested.

My point is that in the States that have made a start and in the legislatures in which legislation has been introduced, there is already quite a body of information on the subject.

I want to make this further point, Mr. Chairman, and that is that the way to get hasty action is to do nothing now.

The reason we have had to have these emergency measures is because we did not put necessary and proper measures into effect previously. The reason we have had this situation is because we did not have the proper preparation.

Mr. LEWIS. What is the oldest experience in other countries with the unemployment problem; I mean official experience?

Miss MAGEE. In Great Britain they have had an experience of over 20 years, not in the wide scope that exists today, but they started with a few industries and expanded it.

Mr. LEWIS. How old is the German institution?

Miss MAGEE. It is much younger; offhand, I would say it is about 6 or 8 years old.

Mr. MEEKER. I think it was first established in 1921 or 1922.

Mr. WEST. Most of the State legislatures meet next January, do they not?

Miss MAGEE. I think nearly all of them do.

Mr. WEST. If we do not have this legislation enacted now, and it should go over until the next session, you would have consideration delayed for 2 years in the State legislatures.

Miss MAGEE. Yes; and with the possibility of our having as short memories as we have had before, and that we would be so prosperous that we would not realize the necessity for such legislation.

Mr. WEST. The point is that the 5 percent would not be burdensome, because it would be merely reflected in the full amount, in increased prices, and the statement that it would be such a burden upon industry that it could not be carried, is rather unfounded, in view of the fact that it is not taking into account that labor cost is a certain percentage of industry cost.

Your figure was 1 percent.

Miss MAGEE. Our Ohio figures would seem to indicate that, and it is not figuring in any cumulative effect.

Mr. WEST. If we give ample notice of the time when this would take effect, you can anticipate enough from any industrial development during the next year or two so that the burden of this would not be borne right now at the time of the depression.

Miss MAGEE. That is true.

Mr. MEEKER. The burden is already there; it is merely a question of distributing it. The industries of the country are paying for unemployment; and they are paying for it through the nose, and I advocate immediate action now, not merely for the reasons that Miss Magee has so well expressed, but as a means of easing a very heavy burden upon industry.

Mr. LEWIS. The next witness is Professor Meriam, of Cambridge, Mass.

Will you give your name, Professor, and state your relation to this subject?

STATEMENT OF PROF. R. S. MERIAM, HARVARD BUSINESS SCHOOL, CAMBRIDGE, MASS.

Professor MERIAM. Mr. Chairman, my name is R. S. Meriam; I am a member of the faculty of the Harvard Business School. I have been interested in this subject for a number of years.

I should like to begin by saying that I appear in opposition to this bill, and that I am not, and would resent the accusation that I am, antilabor.

As a matter of fact, I am not opposed, in principle, to unemployment reserves and I am not opposed in principle to compulsion on the part of the States to have them set up.

I am, however, opposed to this particular bill, and I am also opposed to the adoption of any bill at this time.

I have divided my remarks into two parts. The first are rather technical points, on which I may say, quite frankly, in my own opinion, I am something of an expert.

The second part of my remarks deals with political questions in which I do not claim to be an expert, but have only the status of any interested amateur.

My first point of the technical order is that I object emphatically to the provision in the bill that permits the setting up of reserves by companies. The effect of bills calling for individual company reserves is to deny all rights in the reserves to workmen who quit voluntarily. The workmen might quit voluntarily either to get a better job or, in concerted action, to strike for better conditions. Under the individual company reserve plan all rights in the fund are denied to an individual who quits for either of these purposes.

The effect of the company-reserve plan is to tie a workman to a particular employer. It sets up a state of industrial feudalism, which means that any workman who has worked for some time for a particular employer must think twice before leaving for any cause, lest in the event of possible unemployment he lose his rights to benefits.

This provision by tying the individual workman to his company further reduces the competition among employers for labor, and this, in my judgment, is unfair, because a workman who has worked for some time for an individual employer has, in my opinion, earned his benefits and should not be deprived of them.

Moreover, under this individual company reserve plan, every time a man quits it must be decided whether he has any right to benefit under the individual company reserve or not. It means every time a man quits for any cause it is the occasion of a dispute and conflict between the individual employer and the individual employee to determine whether the employer's fund is liable to pay benefits to this man or not. This adds to industrial friction and administration costs.

Mr. LEWIS. It is your conclusion that under the terms of this bill the legislatures would not be free to adopt an equitable provision on that subject?

Professor MERIAM. I was coming to that point, sir, but I will give you a partial answer now.

The effect of making the employer's fund liable for a workman who quits voluntarily would be that the employer would be charged with paying benefits for unemployment for which, under the Wisconsin and Massachusetts theories, he was not responsible.

That is why the Wisconsin and the Massachusetts bills in their whole structure are based upon individual company reserves, and to adopt the amendment which I will suggest in a moment would be to cut out the heart of the Wisconsin and Massachusetts theories.

I therefore suggest, Mr. Chairman, an amendment providing that the worker who quits voluntarily and who later gets other employment may, if he is not entitled to the maximum benefits from the reserve of the subsequent employer or employers, obtain compensation from the reserves of the employer whom he quit voluntarily.

I will repeat that, if I may.

Mr. LEWIS. I think you have stated it clearly.

Professor MERIAM. Do you wish me to repeat it?

Mr. LEWIS. No. Suppose he quits work in Massachusetts and has gone out to Texas, in a change of employment. Does the geographical difficulty present any objection to that principle?

Professor MERIAM. Of course, it would be limited to the jurisdiction of the State passing the act.

Mr. LEWIS. That answers that question.

Professor MERIAM. Continuing my technical objections to this bill, my second objection is this. Although I like pool reserves on an industry or State-wide business better than I like individual company reserves, which I detest, I object to these pool reserves, whether company, industry, or State-wide pools, because in that pool the good and bad risks are lumped together, and the workman who is not unemployed or is not likely to be unemployed pays for those who are on the fringe of employment.

This means that the pooling of the good and bad risks is a violation of all of these insurance principles, is not insurance in the accurate meaning of the word, because all insurance is based upon classification of risks, so the chances of all those in the same class are uniform.

My third point is that in this bill unemployment is nowhere defined. Would it include unemployment caused by sickness or old age? Presumably not, although section 1 on page 5, lines 7 to 12, of the bill, does not specifically exclude unemployment benefits where the unemployment is caused by sickness or old age.

When I called this to the attention of a friend of mine, he suggested that this might be a joker in the bill to permit under this bill States to establish sickness or old-age benefits by calling them unemployment.

Apparently, therefore, but only apparently, this bill excludes the combination of a provision for involuntary unemployment and a provision for retirement. This combination of providing in the same fund for unemployment benefits and retirement annuities has already been worked out for the Hill Bros. Co., manufacturers in Boston, Mass. This Hill Bros. Co. plan is a voluntary plan worked out with an insurance company and adopted by vote of the employees.

It is not clear to me, although I am not a lawyer, whether mutual insurance companies and mutual savings banks are excluded under this bill or not.

Section 3 (h), page 11, lines 3 to 6, excludes any private insurance companies organized or operated for profit. Now, it is possible that mutual insurance companies might be recognized under section (i), lines 7 to 13 of the same page, where it says the employment fund shall be held strictly in trust under such conditions approved by the State agency as will in its judgment assure safety and liquid availability of such fund or funds. It is possible that mutuals might be recognized by the States agencies; but stock insurance companies are excluded under (h).

Mr. LEWIS. Economically speaking, is not the difference between the mutual companies and the stock companies a difference in name? Are not the economics of operation about the same? Do not the mutuals, for example, consume as large a percentage of the premiums and the interest payments received as the stock companies? Some men, evidently informed on these things, have stated that. Do you have any information on that subject?

Professor MERIAM. I have not detailed information. I should agree, as a general proposition, that is substantially the fact, that the difference is a negligible factor, in an economic sense.

Mr. LEWIS. In an economic sense?

Professor MERIAM. Yes; it is negligible in an economic sense.

However, I am here talking about the specific provisions of this bill; and paragraph (h) says "any private insurance company organ-

ized or operated for profits." I am no lawyer and do not know whether, under that particular language, a mutual company would be excluded or not excluded. Mutual savings banks are nowhere mentioned in the bill so I cannot say whether they would be recognized or not.

Apparently, therefore, the combination of unemployment benefits and retirement annuities, which could be worked out through either insurance companies, mutual or stock, or savings banks, are banned by this proposed measure. I would leave out all references to insurance companies of any sort, which would let the matter rest in the discretion of the State legislatures.

Of course, technically, the bill seeks only to provide unemployment benefits, but it is designed not only to provide compensation, but also to support wage rates. Section 3 (e), under (2), page 9, lines 14 to 17, of the bill, says a workman may not be denied benefits, if otherwise eligible, "if the wages, hours, and other conditions of the work offered are substantially less favorable to the employee than those prevailing for similar work in the locality."

This provision is designed, therefore, to protect working-class standards, as well as to provide compensation. This provision may under some conditions operate to maintain wages rates in the face of a decline of prices and a decline of demand. This maintenance of wages may, under those conditions, operate to create unemployment. This language is somewhat vague, because the word "substantially" is in this clause (2). To avoid this I suggest the substitution here of this proviso: "if the acceptance of the position would result in the reduction of the purchasing power of wage earners and farmers."

That is not a protection of wage rates; it is a protection of working class purchasing power. In certain cases protection of wage rates may operate to reduce working class purchasing power, because of its effect on the amount of employment, which, multiplied by the wage rates, gives us the purchasing power in terms of dollars and cents.

Under this clause (2) we have the wages, hours, and other conditions of the work; and a workman could refuse part-time employment and still remain eligible to full unemployment benefits. For that reason my final suggestion on clause (2) is to leave it out entirely.

Mr. LEWIS. What would the situation then be with reference to applicants qualifying themselves for unemployment benefits with the former employer?

Professor MERIAM. Well, this is not a matter of the former employer or other employer. It simply means that the bill is limited to the purpose of providing compensation and does not have the other purpose of maintaining wage and hour standards.

Mr. LEWIS. Suppose he declined employment when he could secure it?

Professor MERIAM. That is an administrative question and for the State machinery to say whether that constitutes such a refusal on his part as means that he is no longer involuntarily unemployed.

The British act, for example, has no provision that the workman may decline if the wages, hours, and other conditions of work offered are substantially less favorable; and they have been able to administer the act perfectly well. The British act simply declares

that a workman may not decline suitable employment. What that suitable employment is is a matter of administrative definition.

Mr. LEWIS. The word "suitable", then, takes the place of the word "substantial" here?

Professor MERIAM. It may, sir. I do not want to—

Mr. LEWIS (interposing). And, under the word "suitable", the administrative board will do what I think all courts really and properly do in disputed cases, that is, really make the law, that is legislate, with regard to the circumstances of each particular case.

Professor MERIAM. Well, that puts more stress, sir, on the adverb "substantially"; and if that word "substantially" is thoroughly borne in mind, maybe this is a minor technical point. I should prefer the "suitable" provision.

Finally, on these technical objections, it is no answer to say, as to the technical objections, that this proposed bill leaves all the questions up to the State legislatures. The bill itself puts the restrictions on the State legislatures, but it does not put all the desirable restrictions on them, and it does put some undesirable restrictions on them. The issue is not a question of whether the State legislatures should be restricted or not. The issue is simply whether certain restrictions should be put on.

I did not prepare to speak on this phase of it, but, since the Chairman raised the question in discussing the matter with one of my predecessors this morning, let me say, sir, in my opinion, that it would not be possible under this bill for any State legislature to adopt the British plan.

Mr. LEWIS. I would like to hear the statement.

Professor MERIAM. On page 8, section 3 (b), line 17, we find this language "and provides that the legal liability of such unemployment fund to pay compensation shall be limited at all times to the resources of such fund, including any contributions due or unpaid." Under the British plan the Government may at any time borrow from the British Treasury in order to pay benefits. This provision that the unemployment benefits—that the legal liability of such an unemployment fund to pay compensation shall be limited at all times to the resources of such a fund, means that there can be no legal claim of benefits if those benefits are paid by the unemployment fund borrowing from the State treasury. Therefore, this provision at the end of (b) would bar out the British plan.

Mr. LEWIS. Does it bar out contributions?

Professor MERIAM. No, sir; not that part. It would simply bar out the possibility of borrowing.

Mr. LEWIS. Of borrowing?

Professor MERIAM. Yes, sir; borrowing.

Mr. LEWIS. Of anticipating contributions?

Professor MERIAM. Of anticipating contributions, excepting "any contributions due or unpaid", which are still allowed. It might borrow to the extent of contributions due but not paid.

Also, sir, at the top of page 8, section 3 (a) provides that the compensation "shall be payable to them as a matter of right." Again, I do not pretend to be a lawyer, but I do know what that clause is intended to mean; it is intended to mean that the workman shall not have to prove that he is in needy circumstances in order to claim the benefit. As a matter of law, it might be that if he proved needy

circumstances he would then have a matter of right. But what that clause means, in economics if not in law, is to rule out any means test for any benefits under the act. And at the present time the British legislation does require the so-called means test for certain benefits.

Mr. LEWIS. With regard to the insurance part of the fund, there are two parts of that British fund—the relief part and an insurance part. Is the means test applied to both?

Professor MERIAM. The means test is not applied to both. It is applied only to the second. But, if I read this bill correctly, the two things in England are handled as one fund and under this provision, if I understand it, the two funds would be separated; and I think, as a matter of relief measures, there is a good deal to be said for not saying we have here an unemployment reserve fund and when that ends you have got to go to ordinary poor relief. I think this intermediate stage, when ordinary benefits have been exhausted where an emergency benefit under the need clause could be administered, is possibly a good thing. Under this bill it would be ruled out.

Now, I come to the second section of my remarks, where I am talking more politics than technical economics or technical insurance; and I should like to repeat that here I offer the views of an interested amateur, but that I do not consider myself an expert on political matters.

In the first place, I do not want to raise the question of the constitutionality of this bill in any technical sense. My first political objection is, therefore, that this is no time to put additional burdens on employers and employees and State administrations. Recent legislation has created plenty of burdens without adding this one. It is an extremely dangerous time to discuss raising labor costs in the sense of labor costs per unit. I should like to refer to that, since both my friend Mr. Smith and the lady from Cleveland have referred to these figures in terms of selling price. That is, in my judgment, sir, an extremely misleading comparison.

The fact is that the profits of the employer also are normally a very small portion of selling price. I once made a rough calculation for the State of Massachusetts, for the year 1930, of the amount of profit reported under our tax law by manufacturing establishments, in its relation to payroll, and I found that two percent of Massachusetts payrolls amounted to 9 percent of the profits reported by the employers. It is simply impossible, sir, to make any suggestion that the cost of providing decent unemployment benefits is not a substantial sum of money. You can figure in terms of unit price or profit or in any way you want to; but in dollars it amounts to a great deal of money; and, in my judgment, this is not a time to impose those burdens, particularly not to impose them in terms of labor costs, and that would be my answer.

But Dr. Meeker says that this is simply a redistribution of the burden. That argument is, in my opinion, fallacious, because this burden is stated in terms of pay rolls and the other burdens are not stated in terms of pay rolls; and there is a great deal of difference between a pay-roll tax and all the other taxes that we may think of.

Secondly, if the Federal Government gets any revenue from this bill, it is worse than any sales tax. It is a tax on pay rolls, on wage earners, an obstacle to increased employment and to rising wages.

It operates to encourage the substitution of other methods of production, using less labor. It encourages, therefore, the introduction of wage saving machinery which may not be in the true sense labor saving machinery.

Mr. LEWIS. Have you something concrete on that last suggestion or is it just an abstract idea?

Professor MERIAM. Well, it is a well recognized idea, sir, among those who have discussed the effects of a tax of this sort.

Mr. LEWIS. In other words, just to give a fanciful illustration, you might drop half of the employees and the pay roll would be reduced 50 percent, by the substitution of machines which would not increase the pay roll, although the use of those machines might increase the corporate expense in the same degree. The tax in that case would apply only to the one half of the pay roll remaining?

Professor MERIAM. That is a good fanciful illustration.

Mr. LEWIS. Perfectly fanciful.

Professor MERIAM. But it is substantially the way I should answer the question. The principle is one of the fundamentals of economic literature. It is known as the principle of substitution. It is the notion that the employers will endeavor to substitute less costly ways of doing things for more costly ways of doing things. It is not a fanciful principle. It is a principle recognized in economics and it has a multitude of applications. It explains, in part, why wage rates in normal times are very much higher in this country than in the other countries.

Mr. LEWIS. Supposing the obligation to exist to indemnify this worker for his opportunity to labor taken away for the benefit of society. Supposing that obligation to exist, do you have any other method of taxation that you think preferable to this?

Professor MERIAM. Well, not here, so far as the first line of resistance to the impact of unemployment. I should like to see a contributory system, where both the employers and the employees contributed. It all comes out of the wage earners, in my judgment, whether it is paid by the employee in the first instance or in the second; but I do not urge that as an objection. When it comes to additional benefits, relief under the means test, then I should prefer to see funds raised for that purpose not by a tax on pay rolls and contributions from the employees, but from the general revenue of the State, which comes from many other kinds of taxes, many of which do not fall upon the wage earners as this particular one does.

Mr. LEWIS. Well, that is easy, of course, to develop objections. I am pursuing the easy path. Now, here is a State in which half the taxpayers are farmers and they do not come under this bill at all. The State revenues would be derived from taxes on farms; and we would not, of course, ask the farmer to contribute in the form of taxes where he could not be a beneficiary.

Professor MERIAM. However, the case you are putting up is where the workman suffers from a process that is for the general good. You referred to the general welfare; and it is up to the State, in my judgment, to pay compensation for any injuries inflicted on the workman for the general welfare, just as it would pay compensation to the workman if it took his house for a street.

Mr. LEWIS. And that would presume that the farmer would be a participant in the increased general welfare?

Professor MERIAM. Well, it is up to the State legislatures to determine what the best all-around system of taxation is. I have ideas on that subject, sir, but I know that you do not want me to go too far afield.

Mr. LEWIS. We want information.

Professor MERIAM. Well, I do not want to expatiate on the general system of taxation, which tax is equitable and which is not. This bill is imposing a direct tax upon wage earners and wage earning.

Now, the hope is—and this is my next objection—the hope is that the State legislatures will yield to Washington pressure to pass these acts in order to keep money at home instead of spending it here. This is an appeal to State distrust of Washington, to the States' opinion that money sent to Washington is not spent on anything so beneficial to them as money that is spent within the confines of their own States. It is a strange spectacle to me to see Congress passing a bill designed to fortify the States' distrust of Congress.

In conclusion, both the technical and the political aspects of unemployment relief, in my judgment, need further detailed debate and clarification. There is no need to strike while the iron is hot. There is no need of nervous haste to pass any sort of a law. Action at this time on this matter is not necessary to help recovery. It is more likely to hurt recovery.

Thank you very much for your attention.

Mr. LEWIS. Thank you very much for your contribution.

I learned that Mr. Hutzler is now here and we will hear from Mr. Hutzler of Baltimore.

**STATEMENT OF ALBERT D. HUTZLER, OF HUTZLER BROS.
DEPARTMENT STORE, BALTIMORE, MD.**

Mr. LEWIS. Now you might proceed, Mr. Hutzler, and tell the committee of your relation to the employment situation.

Mr. HUTZLER. Chairman Lewis, I am a merchant, Albert D. Hutzler, of Hutzler Bros. Co.

Mr. LEWIS. Of Baltimore, Md.?

Mr. HUTZLER. Yes, sir. We are in the department store business in Baltimore. I guess you would call us a middle-sized employer in relation to some of the larger-sized employers you have had before your committee.

Mr. LEWIS. How many do you employ?

Mr. HUTZLER. About 2,000.

I have been interested in this subject in relationship with philanthropic activities and with civic activities throughout the city. I have no technical background of any particular merit, but I am simply interested in the subject as a business man and as a citizen who wishes to see the best for the country. I do not know whether that is approximately what you wish for a background.

Mr. LEWIS. You may just proceed.

Mr. HUTZLER. Would you rather have me read a statement or informally state my views?

Mr. LEWIS. Mr. Hutzler, the committee has heard the general principles presented pretty well; and if you can please, direct your remarks to your own specific experience.

Mr. HUTZLER. Yes.

Mr. LEWIS. Perhaps that would be the best plan.

Mr. HUTZLER. Well, I have a certain outline and I will try to do that.

Mr. LEWIS. Proceed in your own way, sir.

Mr. HUTZLER. From my outline rather than from my specific talk.

I have been interested in this proposition and I am quite in accord with the general principles of unemployment insurance. I think that the public as a whole has come to have a feeling that if a man is unemployed because the particular trade that he has learned is not having employment, either because of a style change or because of technical improvements which throw men out of work, or because of cyclical depression of a nature that puts him out of employment along with others, it should not be necessary for him to go to charity, but it should be a matter of insurance, of just the same type as the insurance that the owner of property has against fire or against windstorm or against tornado.

They are all insurable risks. One can never tell when they may hit, and there should be a similar type of insurance. I look upon it more as an insurance feature than as anything else.

Then, as a matter of abstract justice, we should pass unemployment-insurance laws throughout the country. Abstract justice however often leads us astray. There are many laws which are proposed which seem abstractly just but which if we follow to their logical conclusions and logical consequences, we find do more hurt than primary good. Trying to follow this proposed law through and looking at the effect upon business and the welfare of the country as a whole, we do not reach that conclusion. This law, after the initial stages—I want you to notice, after the initial stages—is neither deflationary nor inflationary. It is deflationary at times and it is inflationary at times. But, after the initial stages, you are paying more into the insurance fund than you are paying out during times of prosperity and it would therefore act as a check on a runaway boom.

And in times of depression you are paying more out of the fund than into the fund and it therefore acts as a check against the descending cycle. Therefore, this particular insurance fund should have a wholesome effect upon the economic cycle as well as being wholesome as a question of abstract justice. It is for that reason that I am in favor of the general principles of it.

Now, I have been trying within the last week or so to get the principles that I think should be in any program for unemployment insurance. There are four that I put down; and I will speak of them in turn. The first one is that it must be Nation-wide. The second is that contribution should be made to the insurance fund by the three interested parties, to wit, the employer, the employee, and the taxpayer. The third is that we should make just as quick a start as possible in building up this fund, as quick as it is possible to make without hurting the recovery. And the fourth that the insurance fund itself within any division—in most cases the States will be the divisions—within any division should not apply to a particular industry but should apply to all industries within that geographic division. Now, let me just give my reasons for all four.

The first one is that it should be Nation-wide. I found the necessity for that rather large when I was serving in a dual capacity. I was on a commission in Maryland that drafted an unemployment-insurance

bill. It was a Baltimore city commission but it drafted a State-wide bill. I was also a member of the board and later the president of the Association of Commerce in Baltimore. This gave me a great opportunity to hear both sides of the question and get all viewpoints.

This bill was presented to the legislature by the commission and disapproved by the association. The disapproval was sincere and it was valid. Undoubtedly, had that measure been passed in Maryland, and not been passed in the other States, it would have necessitated a huge handicap to the industries of Maryland as against their competitors in other States. You could not possibly avoid that. It called for a big sum, a big sum in relation to the sales or in relation to profits, that would have to be a handicap and that would probably have increased costs to a noncompetitive point.

Mr. COCHRAN. If the gentleman will yield, what was the rate on the pay roll proposed in the Maryland legislation?

Mr. HUTZLER. It worked out at the initial stage 1 percent from the employer and 1 percent from the employee, and in slow stages to 2 percent from the employer and 2 percent from the employee, which is a very considerable burden.

Mr. COCHRAN. Did it provide for participation by the State of Maryland?

Mr. HUTZLER. It did not provide for participation by the State of Maryland. The administration in the State of Maryland would have fought it bitterly had it done so. Again, it was a question of getting that through or nothing and even that could not be gotten through at the time.

Mr. COCHRAN. But the machinery was to be administered by the State?

Mr. HUTZLER. It was to be a State administered law but not a law supported by State contribution.

Now, I think that that similar opposition will occur in every State, so that if you try to put a law in a State without having some national impetus, it will fail. I do not think that that national impetus should be taken, as the last witness had a feeling, that it is a question of administering it through the National Government or through the State government. This is frankly a makeshift device.

Mr. LEWIS. That would resemble the tax which Congress found it necessary to impose on State banks issuing notes. It was imposed as a deterrent and it proved rather effective, I believe.

Mr. HUTZLER. It was something on that order, I believe.

I thought what I would do was to first discuss the general principles, without relation to the law, and then to specifically bring those back to the law.

Am I taking too much time?

Mr. LEWIS. No. Proceed.

Mr. HUTZLER. As I said, it has to be Nation-wide. I think that is one principle.

The second principle is contributions by the three interested parties and I think that, again, is a matter of justice and a matter of expediency. All insurance should be paid for by those who receive the benefits. I think we must consider this as insurance, just as industry must have its own fire insurance or its own occupancy insurance. It is insurance. Now three parties benefit. The employer distinctly benefits. There is many an employer who feels—

I should say the majority feel greatly—the moral obligation to keep on their employees as long as possible. They try to make work for employees. They are handicapped by perhaps their more desperate competitors, and eventually things have to be done which they do not want to do. But it will relieve the employer of a tremendous moral strain, a tremendous financial strain, in trying to keep up employment in times of slack.

Mr. LEWIS. Mr. Hutzler, do not answer this question or feel that you should, if it discloses any business secrets. But I have never had any information as to the proportion of a department store's sales which go to expense. In the manufacturing industry I think it runs about 22½ percent of the final value of the product. Can you state generally?

Mr. HUTZLER. Yes; surely. Department-store accounting is a little different from manufacturing accounting. In other words, all labor in the department-store accounting is expense; while that same labor in the manufacturing accounting is part of the cost of product. It makes it very difficult to compare and there is a movement on foot now to bring department-store accounting more in line with other accounting, because it is out of line, and it looks much more unfavorable. In normal times the tendency of department-store expense is lower.

Mr. LEWIS. Wage and salary expense?

Mr. HUTZLER. Well, wage and salary expense in normal times is about one sixth of sales. It is reaching a point now that is practically one fifth. That ought to be pulled down, but it is there and recent tendencies in the shortening of hours and the increasing of wages have definitely increased department-store wage and salary expense, which is growing, so that now it is practically a fifth of the amount of sales. It is not quite there yet. I was going to bring that out a little later on in relation to this proposed law.

Now, I was on the contribution by the three interested parties. The first was the employer. As I say, he has a real interest in it. The second one is the employee, and the employee's interest in the insurance is obvious, because he not only gets all the benefit from it but his sense of security is greatly enhanced, and he certainly can contribute. The third is the taxpayer, and I think that particular interest is very definite these days, when the taxpayer is handing out, either through voluntary contribution, as he did a year or two ago, or through taxes, for unemployment relief paid for by the State and Federal Governments, huge sums of money.

In addition to that, when all three are contributing financially you are likely to get a greater interest in a fair administration of the law. If the employer is contributing, as he would under any law, he is interested in seeing to its proper administration. If the employee is contributing, he is going to try to see that fraudulent claims are not put in and he will try to see that the premium is kept down. If the State is doing it, the State is going to pass laws and have an administration of a type that will be most efficient. It is therefore desirable, as I see it, to have all three interested parties contribute premiums to the insurance fund.

Now, the next thing is a quick start, but that without hurt to business. I think the advantages of a quick start in building up such a fund are pretty obvious. We ought to get going on a thing like this

just as quickly as we possibly can without hurting the recovery. But in getting them started it is equally obvious that the initial stages of this particular law are heavily deflationary, that for a while costs are being increased heavily without 1 cent being paid out of the fund. That will be so certainly for a period of at least 6 months, in which there will not be a cent paid out, and it will probably be a year until the fund is built up to such a condition in any State that payments should be made out from the fund, and during that period every cent paid in premiums is a cost on production without giving 1 cent additional purchasing power in the country as a whole. I think we have to remember that, that the initial stages of such a law are heavily deflationary, although when once the fund is built up, then the regular working of it will be in the long run neither inflationary nor deflationary.

Mr. COCHRAN. Will the gentleman yield?

Mr. HUTZLER. Certainly.

Mr. COCHRAN. The bill before the committee provides that unemployment insurance shall not commence until July 1, 1935. Now, in your opinion, would a law providing for present payments not be detrimental to the recovery?

Mr. HUTZLER. Well, of course, if the recovery is complete by July 1, 1935, which I would love to see—I was going to discuss that a little later when I discussed the specific law instead of general principles. If the law were complete by that time it would still act as a deflationary tax, put on as one lump sum. I would prefer to bring that up a little later.

Mr. COCHRAN. Just go ahead in your own way.

Mr. HUTZLER. Now, the last principle that I put down there was that within any one section that this operates the unemployment insurance fund should be State-wide or section-wide and not be limited to any one industry.

Now, of course, we always think of unemployment at the present time, or a great many of us do, in relation to this cyclical unemployment, so that whether it is State-wide or industry-wide would not make a great difference. But as far as unemployment created by change of style, unemployment created by technical advances, that will bear heavily on some one industry, and you cannot tell when it is going to bear on that one industry. And it seems to me to be just as important to have a distribution of risk between the different industries in building up an insurance reserve fund as it is for a fire-insurance company to have a well-distributed risk, in different classes and different sections, so that a conflagration in a particular section would not be disastrous.

Mr. LEWIS. Now, as you read this measure, would the State legislature be inhibited from establishing such general institutions?

Mr. HUTZLER. No; I do not read it that they would be inhibited at all. I am just trying to get my purely general ideas of what is necessary—I do not know whether this is of interest at all. I may be just wasting the committee's time.

Mr. LEWIS. No. The subject becomes highly technical, as all other subjects do in application. Now, what is your view as to whether the bill would prevent the legislatures from adopting this view that you are presenting?

Mr. HUTZLER. As I read the bill, it neither prevents nor instructs. As I read this, it is left entirely to the individual State legislature. Am I right there?

Mr. Lewis. That is the intention.

Mr. HUTZLER. That is the intention of the framers of this bill.

Now, just a comparison of the bill with these four principles. As far as it being Nation-wide, it certainly checks, because this thing will force a Nation-wide application of it. As you say, it is exactly the same type of thing as the tax on a State bank, which is a tax not to be collected but to cause or prevent certain other action. So that agrees there.

Now, as far as the second principle is concerned, that is a contribution by the three interested parties. At this point I won't discuss whether the eventual rate should be the initial rate, but I shall just discuss the reasonableness of the eventual rate. Five percent for the employer alone seems to me too high, as 5 percent for all parties should be sufficient to build up an unemployment insurance reserve for all style and technical needs, and still leave enough growth so that we will have a large sum left over for the next cyclic depression.

It is so high, that 5-percent rate for the employer alone, that, although the law does not prohibit additional contributions to be levied by the State on the employees, or contributions by the State itself, it distinctly discourages, and in real practice prevents, the levying of any premium on these other two interested parties. It seems to me that that eventual rate, whether it is an initial rate or not, is too high for the employer alone. Now, although eventually the employer's contribution could be cut down by savings effected or by experience, it can only be cut down to the amount of the difference in reduced tax between what he had paid at one time and the saving. In other words, he must be compelled to pay up to 5 percent, roughly, and then let down. And it seems to me that would practically eliminate contributions by employees and by taxpayers, and I think that that is a weakness in the bill itself.

The third is the question of the fair start. I do not think that the actual date of July 1, 1935, is too early if the start is to be gradual. I think it is much too early if the full force is to come on at the first blow. I would rather see a start a few months earlier than that, on a graduated scale. I think the important thing is to get the principle established and to make the shock to industry and to labor—because the same for both—as gradual as possible.

Putting a 5-percent tax on, I think the Secretary of Labor calculated, would mean 1 percent in the finished product. Now, just the figure I gave you before, where in the fast stage distribution, the pay roll is approximately 20 percent, not quite, but it is almost 20 percent, that would mean 1 percent more in the last stage alone. It is too much. We are increasing prices rapidly without increasing purchasing power when we are doing that. I would rather see a quick start and then build up the rate from year to year.

May I use the analogy of a city that has a river of clear water running nearby that has ample flow for the city's use for a period of a year and at times has a meager supply, and at one of those times the engineers project a reservoir to be installed at a new site. That is done quickly, but we would not pump water into that reservoir until

the flow of the river is big enough to take care of the normal needs of the city. That is the situation here.

I think that rate should be lower and should be graduated. In the proposed Maryland law, which, as I say, was not passed because it was believed to be too burdensome, there were provided rates which came up to 4 percent, and actuarially they thought that would take care of the fairly large benefits provided in that law.

Now, there is one other question that was brought up by the previous witness and that was the method of assessing the tax, and also the premiums for insurance, that is, on pay rolls. Now, I am not a believer in putting any handicap on the use of labor-saving machinery. At the same time, I do not see why we should place a bounty on the use of labor-saving machinery.

I think we could develop a method of paying the premium of the insurance on output instead of pay roll. We could take the average of the pay roll to the output of each industry in a particular base year, which the Census Bureau has already collected. If the tax we wish to collect is a 2 percent tax and in a particular industry labor is half of the output of that industry, then a 1-percent premium on output would give the same rate for the industry as a whole and would put neither a penalty nor a bounty on the use of labor-saving machines.

I think that if, as in the present draft, there is a 5-percent bounty on these labor-saving machines, many an employer who would not buy machinery to make a 1-percent saving on account of the amount of additional capital which would be necessary in his business would definitely buy that machinery if the saving were 6 percent, and you see the premium on pay roll alone would make the differential that great. I think for that reason it would be well if, though primarily based on pay roll, it would be worked out on output as a basis of premium.

Mr. LEWIS. The output in the case of a department store being its annual sales?

Mr. HUTZLER. In the case of a department store, its annual sales. In other words, if in a certain year, for the industry as a whole, we should happen to have a pay roll of 19 percent and that was the year taken, if the whole industry had that particular pay roll, you would take nineteen one hundredths of the output, and that would be stationary, no matter how much or how little labor-saving machines were brought in, and would only be changed by the changes made in the premium rate of the industry, due to stabilized conditions.

Now, the fourth thing was the question of whether industry funds should be allowed or whether it must be State-wide in the application. I think we have fully discussed that. I would like to see encouragement as far as possible of a State-wide fund, for the reasons that I have stated before.

I have not the technical knowledge to go over the bill and comment on its various features the way the previous witness did, but there was one clause that I am interested in. It seemed to allow labor unions to strike or to put up conditions that would not be met and then allow the men who were on strike to collect benefits. If that is true, I think it is most unfair. I do not know whether I read it rightly or not.

Mr. LEWIS. I think that is not the intention of the bill, sir.

Mr. HUTZLER. I see. I did not know. Neither did I understand the prohibition against private insurance companies. I do not see the particular reason for that.

Mr. LEWIS. Let us have a little discussion of that particular question. What I am saying is without prejudice to the operation of these companies, and my data is very, very old indeed. It goes back to the Hughes' investigation. I remember looking into the life-insurance statistics at that time and, as I recall, the four larger companies showed an expense element of about 25 percent of their premium receipts. One company, I think it is not unfair to name it, the Northwestern, was as low as 16 percent.

Some years later I happened to look into a volume of statistics for casualties in connection with workmen's accident compensation, with which I had some experience about 30 years ago in the Maryland Senate, and the ratio of the benefits paid out, that is the achievement of function, as I recall, was at that time as low as 20 percent. In other words, the charges were four or five times as great as the benefits realized by the victims of accidents. The thought is that, in the natural instinct of the company to protect its funds, it carries its defensive measures to an extravagant point, until the economy of the institution itself utterly fails.

Mr. HUTZLER. Well, is that true in recent experience of workmen's compensation insurance companies? For instance—I mean it would seem to be much fairer—

Mr. LEWIS (interposing). I want to hear your statement on the subject, Mr. Hutzler, because you have recently been in it, I think. I do not know the present situation.

Mr. HUTZLER. No; I have not been in it to that extent. It would seem to me that, simply as an insurer, that the thing would be, rather than prohibit these private companies, to prohibit the elimination of mutual companies. I mean there is an attempt made sometimes to eliminate mutual companies. I think as long as you have the mutual companies in existence in the State, or the State fund itself competes with the private companies, they have to keep their rates and their methods down with those mutual companies, and those mutual companies do operate and do effect a great many savings; and I think they are very good yardsticks as against the private companies.

I do not think that in a Nation-wide law we should say that a private company should not remain in the insurance business, although it is a new type of insurance. With these mutual companies to a very considerable extent, I think the best thing is to see that they are not prohibited instead of prohibiting the other type of companies. I think it is a much better type of clause to put in.

Mr. LEWIS. In one of the States they apply the principle to employers of as few as three employees. Well, manifestly the State could not look to an individual employer of three employees as presenting an adequate sanction for the reserve. I doubt whether it could look to the employer of as few as 10 employees as supplying an adequate sanction for the carrying of a reserve. These are benefits that are limited to some 10 weeks. A company sends out its agent to investigate whether Smith's claim, that may run into 10 weeks, is to be paid. Why, the administrative expense in investigating that particular claim might run as high as the benefit itself, if it were paid.

Mr. HUTZLER. Personally, I think it might be very well to have the entire insurance in certain States in State-wide funds. That might be very well to try as a control against that in other States, with private and mutual insurance companies. But I do not see the necessity, in a Nation-wide law, of prohibiting insurance companies. It may develop later, administratively, that it is bad. It may develop that the States having State-wide funds are having better experience than those where the legislature has thought it wise to go to private and mutual insurance companies. I just think it is a detail that is not necessary in a national law. I think if we keep out contentious details and do not get all the insurance companies down on this law, I think we have a much better chance.

Mr. COCHRAN. In the State of Pennsylvania compensation risks are permitted to be carried by private companies as well as in the State insurance company.

Mr. HUTZLER. Well, so it is in Maryland also, and I see no reason why that should not be continued until experience has shown it to be unwise. I do not see why that particular clause is necessary in this general enabling act, so to speak. This is an act, if you want to state the bare truth, that is designed so as to force the States into unemployment-insurance laws. I do not see the necessity of that particular clause in such an act.

Mr. LEWIS. I am very glad indeed that you have discussed this.

Mr. HUTZLER. If there are any further questions I will be glad to answer but I have no prepared notes.

Mr. LEWIS. Thank you very much.

Mr. HUTZLER. Thank you very much.

Mr. LEWIS. It is a real contribution.

Is Congressman George T. Darrow here?

Mr. DARROW. Yes, sir.

Mr. LEWIS. I believe you wish to introduce a witness?

Mr. DARROW. Mr. Roger F. Evans is here to speak for the Philadelphia Chamber of Commerce, and there are a number of officers of that body here. Mr. P. H. Gadsden, the president of the chamber of commerce, and various other officers are here. Mr. Evans will be pleased to speak for the chamber of commerce.

Mr. LEWIS. We will be glad to hear from Mr. Evans.

STATEMENT OF ROGER F. EVANS, MANAGER, INDUSTRIAL RESEARCH AND DEVELOPMENT BUREAU, PHILADELPHIA CHAMBER OF COMMERCE, PHILADELPHIA, PA.

Mr. LEWIS. What are your relations to the industry, outside of your relations to this commercial organization?

Mr. EVANS. At the present time, none. For 13 years I came up on the management side of a large silk-manufacturing concern, the latter part of which I was vice president in charge of their raw silk buying in China. That experience, and perhaps the perspective which it helped to give, led us to believe that it was time that business became concerned with forces outside itself; and it led us to hope that, when the opportunity afforded, that we might enter into that form of semipublic service.

So about 3 years ago it was my privilege to come down to Philadelphia with Mr. Morris E. Leeds, who, as you know, has been

very prominent in that field, and for 3 years I was executive secretary of the so-called "Permanent Committee on Unemployment", endeavoring to give some continuity and effect to the program for stabilization which we have in Philadelphia. The understanding was that I came only until such time as the work found its root in the community. It has been taken over by the chamber of commerce, last fall, and I am now the manager of the so-called "Industrial Research and Development Bureau" operated by the chamber.

Shall I proceed?

Mr. LEWIS. Yes.

Mr. EVANS. Mr. Chairman and gentlemen of the committee, we should like, first, to submit, for your information, and for your record, if you desire it, this study of unemployment reserves and systematic relief, issued by the Philadelphia Chamber of Commerce a year ago. In some quarters it has been called as thoughtful, as thorough, and as constructive a statement as has yet been made by any such group of business men and industrialists in this country.

Mr. LEWIS. You have a number of copies of this study?

Mr. EVANS. Yes.

We do think that it evidences a degree of understanding and sympathy with the principles and objectives of unemployment reserve legislation which you may not have come to expect from employer groups and which, by the same token, may entitle their present views to your careful consideration.

The same permanent committee on unemployment has prepared this statement on this Wagner-Lewis bill now before your committee; and, by request, I now submit it as the position and recommendation of the Philadelphia Chamber of Commerce.

The Permanent Committee on Unemployment believes that all employers should thoughtfully direct their attention to House bill 7659, which proposes to stimulate compulsory State systems of unemployment reserves by a Federal excise tax of 5 percent upon employers' pay rolls in those States where such compulsory systems do not already exist.

The Philadelphia Chamber of Commerce has clearly stated, in a special report made in 1933, its constructive attitude toward the general subject of unemployment reserves and supplementary relief, as follows:

First. Employers are confronted with a major social problem in which they are under pressure to secure information and results simultaneously—ends that can be attained best under our competitive system by starting along as wide a front and as uniformly as possible, preferably with simple, moderate, and flexible plans.

Second. If progressive employers are desirably to influence the handling of this problem that concerns them vitally, they should take the leadership promptly by developing adequate voluntary plans of their own, and by guiding into the same sound channels the legislation now indicated and ultimately needed to protect them from lagging competitors.

Third. The integrity of reserve plans should be fortified by securing an adequate supplementary program of public and/or private relief to carry the residual burden which properly belongs to society.

Nevertheless, because of the seriousness and magnitude of this unemployment problem and the need of meeting it in a sound, orderly and effective way, the report recommended that precipitate and premature proposals for unemployment-reserve legislation be discouraged, but urged that the 1933 Pennsylvania State Legislature provide for

the appointment of a State unemployment-reserves commission, thoroughly representative of the parties in interest, furnished with sufficient powers and funds, and instructed to canvass the situation with care and to recommend to the next regular session of the legislature whatever appropriate action seemed necessary to meet the need.

The commendable points of the bill from the standpoint of industry, in the absence of significant action in this direction by the several States, the Federal proposal is now brought forward. It is addressed to the necessity of dealing to a limited degree, but systematically and upon a broad front, with the prevention and relief of unemployment at its point of beginning. By its national approach, it would tend to avoid the competitive handicaps upon industry that single State action, taken at varying times, would impose. At the same time, subject to minimum requirements specified in the Federal law, it would leave the States free to devise systems appropriate to their individual conditions and to thus provide shock absorbers which would add much to the safety and stability of the industrial machine.

The weaknesses of the bill are that the prerequisites not met and that initiation is ill-timed. For there still remain many serious problems whose workable solution is essential to the successful functioning of any such Nation-wide system as this Wagner-Lewis bill aims to secure. These include questions which inevitably arise from causes such as the great area of our country, the diversity of industry and population and the conflicting interests of the 48 States. the lack of continuity existing in our form of Government; and our serious widespread lack of civil service or equivalent safeguard prerequisite to the impartial administration of a system which might otherwise be perverted to the dispensing of political favor and patronage.

There is the whole field of legal and constitutional questions, to say nothing of the economic hazards involved in the exemption of certain kinds and/or sizes of enterprises or the lack of such exemption. Moreover, since economic and political subdivisions seldom coincide, the forcing of minimum legislation on the States under such heavy penalty would still leave for precipitate readjustment the complicated economic relationships determined by factors like the widely varying labor content in different classes of industry, the competition of substitutes, and the mobility of labor, as well as administrative problems like the development of comprehensive and reliable facts, integration with mature employment and relief services, uniform definitions, the quantities of reserves needed for industries of different degrees of irregularity, and a sound program for the investment of these reserves.

But, above all, it must be remembered that our main task is to put the unemployed back in gainful employment and that this will occur and continue within our present system only when conditions again encourage employers and investors to take reasonable new forward risks in business. At best it would seem untimely, by adding further to the costs and uncertainties of industry, to endanger and postpone at this critical stage the very recovery that alone can produce the proposed reserves.

For, in the last analysis, the costs being incurred and proposed can be paid only out of the returns from production, and, socially desirable as more even distribution of the national income may be, it is clear that to the average working man no other immediate benefit can

compare in importance with that of securing reemployment in private industry.

The authors of the present bill, if we understand, indirectly acknowledge this fact as well as the unpreparedness of industry to shoulder added cost burdens at this stage, when they defer until next year the effective date of the tax and describe the bill as a device for laying up in good times reserves to be paid out in ensuing bad times. By the same reasoning, it follows that the burden of unemployment during the present depression must be carried by our present relief measures, with such improvements as can be made in the existing system.

In brief, it seems clear that the immediate enactment of such legislation is unnecessary; that there is grave danger that it would retard the very recovery and steadying of employment that it ought to promote; and that time could be spent to much better advantage in reducing in advance the practical problems of adaptation which lie ahead.

Our conclusions and recommendations are, therefore;

First. Without receding in any degree from our commitment in favor of an adequate, pre-planned, and properly timed American system of unemployment reserves, we hold that it would be unwise to impose upon industry at this time either the fact or the threat of the additional costs that the Wagner-Lewis bill would entail, lest such action paralyze even the slight upturn now indicated.

Second. We recommend that, instead, while relief protects those unfortunately unemployed and recovery shows hopeful signs of an advance, that the time be utilized by creating a Federal commission, comparable in its broad representative character and ability to the recent Royal Commission in England, with a mandate thoroughly to explore the problems involved and to prepare the sound and consistent program of legislation, including standards and administrative machinery and procedures, prerequisite to any equitable and efficient system of unemployment reserves.

That is, in brief, the statement of the Chamber of Commerce of Philadelphia.

Mr. LEWIS. If you have any statement of your own, just proceed.

Mr. EVANS. I wish to add, if I may, that the chamber recedes not one jot from our commitment to the principle of reserves, properly planned and properly timed.

Whatever the rate may be, however, it does oppose the enactment of such a bill as this at this time as untimely and precipitate, because the great bulk of our problems of adaptation still remain not only unsolved but virtually untouched. It is untimely because, by general agreement, it would accumulate reserves only for the next depression, and so could not help those now in need. It is untimely because, despite the fine start made by the Federal-State employment service, we lack, and shall not have for a long time yet, a machinery strong enough to integrate and carry such responsibility along with complementary shock absorbers like pensions and relief, or a machinery sufficiently under civil service to provide even elementary protection.

Finally, it is untimely because, in view of these facts and a real concern over such stern realities as the continuing price disparities between industrial and agricultural products, so many real friends of reserves have come in all seriousness to believe it unwise to impose on

industry higher costs and more reform before we are surer of the recovery which alone can sustain it.

We are unwilling, however, to be classed with those who only object and say "No." Therefore, the Philadelphia Chamber of Commerce proposes, while present measures protect those unfortunately unemployed and recovery shows hopeful signs of an advance, that the time be utilized by developing that employment service, under civil service, essential both to any system of reserves and to any fundamental attack on unemployment, and by creating a real Federal commission with a mandate thoroughly to explore the problems of adaptation and to prepare the sound and consistent program of legislation, including standards and administrative machinery and procedures, prerequisite to any equitable and efficient system of unemployment reserves.

Mr. LEWIS. Mr. Cochran, have you any questions?

Mr. COCHRAN. I have no questions, Mr. Chairman.

Mr. LEWIS. I suppose you are familiar with that poem by Senator Ingalls, Opportunity.

Mr. EVANS. I think not.

Mr. LEWIS. I am not familiar enough to quote it.

Mr. COCHRAN. It begins "Master of human destinies am I" and then it goes on to say "If I knock at the door and the door is not opened, I pass on and never return."

Mr. LEWIS. Well, I ought to say frankly that some of the law-makers apply the Ingalls' law to this situation. We have had frequent reference to an old simile about not mending the roof when the sun shines because it is obviously unnecessary, and not doing it when it rains because it is not a very practical procedure.

Mr. EVANS. I hope, sir, that we would not be grouped with that sort of thinking. I would wish that our proposal would not be considered in that light.

Mr. LEWIS. Well, we know something about the chemistry of human nature, Mr. Evans. There are, it is true—if I seem too solemn in this statement I trust you will pardon me—there are, it is true, thank God, some noble pioneer spirits like the Mr. Leeds, to whom you referred, who, even when their labor was not thinking of this or caring about it, or labor organizations for that matter, looked out upon this field of human relations and said: "When I take care of my stockholders by reserves, should I not also think of these laborers?" Upon his own initiative he proceeded, and he took the initiative. But, as I recall general reading on this matter, not more than 110,000 employees up to date have been covered by these voluntary proposals. Now, I take it that you would concede the necessity of compulsory action here upon the part of the national lawmakers and the State lawmakers.

Mr. EVANS. Would you like me to read from this report on that subject?

Mr. LEWIS. Very well.

Mr. EVANS (reading):

Out of such consideration your committee has found no reason to change its contention that the only fundamental cure for unemployment is work. But it has found convincing evidence that a sound system of reserves is needed to cushion such unemployment as constantly exists in greater or less degree, and that the voluntary approach to meeting industry's due share of that responsibility is entirely inadequate to the need. It is true that voluntary plans offer certain advantages, but experience shows that conditions now, and the pressure of com-

petition at all times, check individual action. It is therefore the unanimous and deliberate judgment of your committee that State-compelled reserves for unemployment will be necessary in order to meet the situation adequately and are ultimately inevitable.

Mr. LEWIS. We might differ as to whether action should be taken July 1, 1934, July 1, 1935, or July 1, 1936. But do we differ as to the occasion being presented for action now, when the nation is conscious of its obligation, whether the efficacy of the action be postponed a year or 2 years?

Mr. EVANS. I think the statement I have made is that in principle and objective there is no disagreement. The disagreement is on the question of time, for the reasons stated, that these same men, who drafted and passed on this report, now feel, in the light of interim developments which we regard as very critical or very serious—such as the economic disparities between prices, for instance, or the rising costs to which the previous speakers have attested—that the imposition of additional costs, or the threat of additional costs, at this time would be unfortunate; and that, therefore, it is much more important at this time that we should have a little recovery, which alone can sustain it, than too much reform, which might kill the very seed that we wish to nourish.

Mr. LEWIS. That would be a difference of opinion between the law-maker, thinking of his opportunity to meet this social obligation, and gentlemen of your chamber, as to the timeliness of imposing this burden.

Mr. EVANS. I think that is probably a fair statement.

Mr. GADSDEN. May I interpose a question there?

Mr. LEWIS. We will be very glad to hear from you.

STATEMENT OF P. H. GADSDEN, PRESIDENT CHAMBER OF COMMERCE, PHILADELPHIA, PA.

Mr. GADSDEN. Mr. Chairman, as I understand it, this bill provides that it shall go into effect on July first by accumulating a reserve, and then actually be in effect a year after that. Now, suppose this recovery that we are all talking about and hoping for does not arrive or that it comes much slower than we anticipate, and we come to that period still in the red: from what are we going to set these reserves up?

There is no flexibility about the provisions of this bill. There is no provision to postpone the operation of the act until such time as industry has again gotten on its feet. Moreover you can see from this report that you have here plenty of men who are absolutely in sympathy with the principle of the proposed legislation, that we come before you with a record favoring it, but say that, in our judgment, you are going about it the wrong way, too precipitately. We started this thing before you did. We jumped this rabbit before you started.

Mr. LEWIS. Not before I did. I am an old offender.

Mr. GADSDEN. I am speaking of the Congress. Therefore I say surely our judgment is entitled to serious consideration.

Mr. LEWIS. Very serious consideration.

Mr. GADSDEN. And we feel that your proposed act would militate against the very thing you want to bring about.

Mr. LEWIS. And suppose that the Committee were to find that, instead of a 5-percent tax, a lower tax would suffice?

Mr. GADSDEN. That would not meet our criticism. We are not here, as I understand, criticizing merely the percentage, although we think it is entirely too great. Our point is that to impose this burden at this time, when industry is just struggling to get on its feet, is going to still further retard the very recovery which is necessary to create these reserves. That is the basis of our opposition to these provisions.

We have just come from another hearing, of the Wagner Labor Board. Now, if you keep on piling these things upon industry, where are the reserves going to come from to protect these things? You are going to stop the very recovery necessary to produce this reserve.

We are in thorough sympathy with the purposes of this bill and we believe that the proper thing to do is to follow the example of the English Parliament and set up a commission to study all the phases of this thing. It is easy enough to talk about setting up reserves, but it is a very highly complex situation that must be dealt with. Our report refers to the fact that the administration of it is not to be protected by civil service. Now, are you going to throw this open to a lot of politicians to play with to suit their own advantage?

Those are serious questions. We are here as industrialists, representing the business of this country. We are thoroughly in sympathy with the purpose you have in mind, but we are warning you against too precipitate action.

Mr. LEWIS. I think I am not misinterpreting either Mr. Swope or Mr. Leeds; from their testimony I got the impression that if the tax were not made higher than they conceived to be necessary, say a tax such as that in Wisconsin, that their objection to an immediate application would not be serious.

Again, some other witnesses before the committee, who held this point of view so very well presented by you gentlemen this morning, said not that the whole procedure should fail but that the time of the going of the act into effect should be determined by proclamation of the Chief Executive, to be based upon certain price and industrial indexes which are now of serviceable value. Would the proclamation method meet your objections?

Mr. EVANS. May I ask: Did Mr. Leeds so testify?

Mr. LEWIS. Who?

Mr. EVANS. I asked: Did Mr. Leeds so testify?

Mr. LEWIS. No. He did not refer to the proclamation method. What he seemed to be concerned about was the size of the tax.

Mr. EVANS. May I say, Mr. Chairman, that personally I have always regarded the figure of a 5-percent tax as a purely bargaining figure, because, as a matter of fact, we do not think of slapping on a 5-percent tax without regard to the other elements involved. So we have said in our statement here that, whatever the rates are, we feel that there are other very real problems involved, those which have been outlined, a paragraph at a time, here, in very concise language, which we think, from an industrial angle, should be very thoroughly explored.

And may I say that I am one of those who feel that we should progress by evolution; and that, in this evolution, in the matter of legislation which so vitally concerns our whole industrial structure, the leadership and cooperation of industry is necessary to make sure that those problems are worked out in a practical way, by somebody who knows how those things work out in practice. That is

not passing the slightest judgment on the lawmakers, but we do feel that a very thorough investigation of this subject and a running down of what these factors amount to in a country the size of this, with its conflicting interests and its rapid changes in economy; which lead to rapid developments of substitutes, is highly important. I assure you, sir, that this is not a Fabian policy; it is not stalling. Rather, by placing emphasis on the beginning and end of our statement, I should like to point out that it is and is intended to be constructive.

Mr. LEWIS. Mr. Evans, somebody or some institution will have sometime to make the decision as to the time of application of this act. Chambers of commerce might differ about it, although they would speak, of course, with great persuasiveness. Can you think of any authority likely to make the decision with more responsibility than the Chief Executive?

Mr. EVANS. I should not go into that question, sir. I think we have had experience, for instance, in Wisconsin. We have had experience in New York. The suggestion is that you get a commitment to the principle and have it go into effect if and when pay rolls come up to a certain level. But I have been told while this was under discussion, by friends of the measure as it stands, that such a measure might be politically inexpedient because it might pass over into another party. The existence of such a sword of Damocles hanging over industry would be unfortunate.

Mr. LEWIS. That would leave that decision to nobody, nowhere.

Mr. EVANS. What creates these reserves except production and the functioning of private industry?

Mr. GADSDEN. Mr. Chairman, may I call your attention to the fact that our report, in order to meet that objection, has recommended that a thorough study be made by a commission which, among other things, would report when, in its judgment, the industry of this country is in a position to stand this additional imposition?

May I also add my own personal viewpoint, that any plan of this kind, to be successful, in my judgment, should be a contributory plan? I do not believe that you can get American industry to accept this burden alone.

Mr. COCHRAN. Will the gentleman yield there?

Mr. GADSDEN. Certainly.

Mr. COCHRAN. Contribution in how many ways? That is, the employee and the Government—would you make the Government a contributor?

Mr. GADSDEN. The Government is necessary only in the case of default or deficit in the fund. I think there should be some fair basis and proportion, which I have not studied. The employee should be required also to contribute, not only to his support when he is out of a job but to the support of his associate when he is out of a job. It is a social obligation.

Mr. LEWIS. I am frank to say that if I were a member of my own State legislature of Maryland again when this subject came up, your point of view would have a very, very earnest advocate, but it is our view that under this bill that kind of action may be taken by the legislature; that we have protected it in that situation.

Mr. GADSDEN. May I follow that, then? How would you figure the contribution of the employer? If part of that fund were not paid by the employees, then the employer would have to contribute that much greater amount than he would in some other State.

Mr. LEWIS. Are you thinking about the 5-percent tax?

Mr. GADSDEN. Or 2 percent or 3 percent.

Mr. LEWIS. But there are variants in the application and the benefits are restricted, I think, to 10 weeks. Then the employee is off the list, without regard to the human situation. He must have been in the employ a certain prescribed time before he can file his claim. There are variants in which any contribution likely from the employee would be well taken up, so that I think the objection is a provisional one.

Mr. EVANS. Mr. Chairman, if I may add a word?

Mr. LEWIS. Yes.

Mr. EVANS. Perhaps I have not sufficiently stressed this, but I have lived with this problem day and night over long periods. I am very earnestly concerned about it. It has been my lot at times also to have something to do with the rapid development of organizations to handle large problems, and I have seen at close range the operation of the Federal State employment office in Philadelphia, which is one of the three in the country, and has very fortunately come into existence to handle the overload that the C.W.A. has put on it. But I think I can suggest how utterly inadequate that best of all public employment offices in the country is to handle the machinery of such a program as this in 1 or 2 years.

That is only one aspect and here are about three pages of the problems, which are very practical problems, which must be solved, if we are to solve the question. It is not Fabian. It is asking for the appointment of a real Federal Commission, which we do not have very often, with all the characteristics and qualities which they have in the British commissions.

Mr. LEWIS. More than that, Mr. Evans, a commission giving complete devotion to the task, giving the subject all of their time, it is all but impossible for the Members of Congress to give their subjects adequate attention.

Mr. EVANS. I think I understand that. I think that there we are not in the slightest disagreement, sir.

Mr. LEWIS. We thank you, gentlemen.

We will meet and resume tomorrow morning in this room at 10 o'clock.

(Thereupon, at 12:40 p.m., the subcommittee adjourned to 10 a.m., Wednesday, Mar. 28, 1934.)

UNEMPLOYMENT INSURANCE

WEDNESDAY, MARCH 28, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE
ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 8 p.m., Hon. David J. Lewis (chairman) presiding.

Mr. LEWIS. Mr. Green, you may proceed. Will you please give your name and your relation to this subject in a general way?

STATEMENT OF HON. WILLIAM GREEN, PRESIDENT AMERICAN FEDERATION OF LABOR, WASHINGTON, D.C.

Mr. GREEN. I am Mr. William Green, president of the American Federation of Labor. I appear here tonight as a representative of the American Federation of Labor in support of this bill, H.R. 7659.

I think that in the beginning I might, with profit, emphasize the primary purpose of the bill, as I understand it. I think it is found in section 2. That section reads as follows:

(a) There shall be levied, assessed, and collected annually from every employer subject to this Act, for the taxable year commencing July 1, 1935, and for each taxable year thereafter, an excise tax measured by an amount equal to 5 per centum of the employer's pay roll as defined in section 1 of this Act: *Provided*, That said tax shall be paid after the close of each taxable year and may be paid in quarterly installments, under suitable regulations promulgated by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

(b) Any employer who has paid the contributions required of him under a State law duly certified under section 3 of this Act may credit against the tax thus due the total of the two following amounts:

(1) The amount of contributions which he has actually paid during the taxable year under such State law; and

(2) The amount by which these paid contributions were less than his largest required contributions under such law in any previous taxable year.

Now, I construe that to mean that the real purpose embodied in the bill, its chief objective is to promote the enactment of unemployment insurance legislation in the different States. It is designed to accelerate and promote the enactment of unemployment insurance legislation, either providing for the creation of unemployment reserves, as provided for in the Wisconsin act, or for the purpose of creating an unemployment State insurance fund.

We feel that that is highly commendable, and that if this proposed bill is enacted into law it will serve as a distinct contribution toward the enactment of State unemployment insurance legislation.

The years since 1929 have driven home to the public conscience the horrors of unemployment in economic terms and in terms of human deterioration. Unemployment is something practically outside the

control of the individual wage earner. Economic and technical forces may change industry over night and wipe out the demand for skills that workers have acquired by decades of work. Depression such as we are still going through sweeps aside our normal business arrangements as the uncontrolled forces of nature sweep aside the works of men. For such cataclysms we cannot make adequate plans, but for unemployment that occurs in normal years we have a definite obligation to provide reserves to meet the needs of those for whom work is not available.

More than three fourths of our population are dependent upon jobs for a living and are in distress within a very short time if the job is lost. This latter group does not have large enough incomes to lay up reserves for the emergencies of life, such as major illnesses, accidents, business failures, unemployment, old age. Society has to help individuals through the problems developing out of these emergencies. In giving relief we followed for a long time the haphazard policy of leaving the needy to find some individual able and willing to help them, but as we come to understand that the emergencies were usually completely beyond the control of the individuals, as we faced the issues and their implications, we realize that society must assume its obligation and put into effect a public policy for insurance against suffering due to such emergencies. Wage earners believe reserves for wages for the unemployed should be provided as part of our public policy.

For three fourths of our people in the United States, unemployment is a constant anxiety. Nearly all the industries in which they work are so seasonal in character that even in our most prosperous years millions must expect anywhere from 1 to 6 months' unemployment, or even more.

Records from our trade unions show that in 1928 13 percent of our entire membership were out of work for at least 6 months (that was in 1928), and in 1929, 11 percent lost 6 months' income.

The immensity of this problem of seasonal unemployment appears when we consider the actual number affected. According to a careful estimate of unemployment each month in 1929, prepared by the Cleveland Trust Co., we find that even in our most prosperous year over 1,000,000 workers lost 6 months' work and over 2,000,000 lost 3 months.

These men and women, or the most part, are living so near the margin of subsistence that there is never enough to lay by in savings. Unemployment for even a few months can mean only one thing—hunger and want. The average wage in all industries, of which we have records, was \$28 per week in 1929. This is by no means a saving wage for a family, and millions, of course, earn far less than this. They have to live from hand to mouth and when unemployment comes children are undernourished, family upkeep is neglected, and debts accumulate.

Records for a few industries show this seasonal unemployment in a striking way. In building for instance, where we have trade union records covering the most prosperous recent years—1928 and 1929—unemployment never fell below 16 percent of the membership, and at least 25 percent were out of work for 6 months or more.

In 1930, a year when unemployment was no greater than it often is in minor business recessions, 25 percent of the clothing workers were

unemployed for 6 months; that is, one quarter of the clothing trades' workers lost half a year's income.

Seamen and longshoremen are another group for whom long periods of unemployment have always been part of the usual course of work. In 1930, union records show that nearly 30 percent of our membership in water transportation trades lost 6 months' work.

In motion-picture theaters, stage employees and attendants are also reporting to us a very high level of unemployment. (That seems rather strange, but it is nevertheless true.) In 1930 there were never less than 20 percent out of work, and unemployment for 3 months of the year ranged between 28 and 31.5 percent.

This is the story shown by our union records: The Census of Manufactures tells the same thing in a different way. For instance, records for 1929 for the automobile industry show that only 60 percent of the wage earners had a full year's work. Out of the 471,000 workers required for the 6 months of highest activity, 157,000 were dropped from the pay rolls for anywhere from 1 to 6 months. This was in the industry's most prosperous year.

Records for 1929, in other industries, show that thousands lost anywhere from 1 to 6 months' work; in women's clothing, 28,000; cotton goods, 23,000; foundries and machine shops, 38,000; steel, 50,000; and lumber, 40,000.

Thus even in prosperous years there is a large reservoir of unemployed, who, for one reason or another are temporarily without work. Their number rarely falls below 1,000,000 and it often exceeds 2,000,000. In depression it may reach five or ten million.

To provide an income for these workers until they are able to find employment, the American Federation of Labor believes that wage reserves should be built up under Government supervision. Business has established the practicability and the wisdom of creating reserves to take care of obligations which are an uneven charge on the industry, such as depreciation, dividends on capital investments, redemption of securities, purchase of new machinery.

The same reasoning applies equally to returns on the investments which wage earners have in industry. Labor is an essential element in production. Production cannot be carried on without workers. These workers put their time, their abilities, their responsibility, their very lives, into the day's work. That investment gives them a claim on the industry to which they are attached which constitutes an investment in their job. To meet their obligation to the workers attached to their pay rolls, industries should accumulate reserves to meet their payments to their employees at such times as wages are not provided from current income.

Not only does this principle rest upon justice to wage earners, but it is essential for the maintenance of economic business structure of which any company is a part. The business level depends upon those who buy. Prices of commodities, services, real estate, and so forth, depend upon available purchasing power. If business can be assured of purchasing demand freed from those irregularities due to unemployment which deprives large groups of income, retail business and at least production of consumers goods, can avoid sudden drops in activity which in turn throw many others out of jobs.

When the unemployed have a secure though smaller income they still can buy the essentials of life and the consequences to local business are definitely softened. With our present intricate interrelationships in business activity, whatever arrangement provides and sustains buying power in a local community helps the whole business structure.

Though individual wage-earner incomes are not large the aggregate is an important part of national income. In 1929 labor income was 65.2 percent of the total national income and in 1932 it was 64.5 percent of the total national income.

We believe the Wagner-Lewis bill is a measure that would help materially to that end by creating a financial incentive for the enactment of State legislation. If against a 5-percent excise tax on each employers' pay roll credit should be allowed for payments into State reserves which conform to standards enumerated in the measure, big impetus would be given to State legislation.

There is a widespread interest in unemployment insurance and legislation is pending in a number of States. This proposed measure might well be the impetus to favorable action in some of these ineasures.

The American Federation of Labor asks that this measure be enacted into law at this session of Congress.

Now, Mr. Chairman and members of the committee, I feel that the imposition of the 5-percent excise tax is a reasonable exercise of congressional power in behalf of a most worthy project. It seems to me that taking into account the constitutional prohibitions which Congress is compelled to meet in the furtherance of social justice legislation, of this character, that we have at last hit upon a plan as provided for in this bill which will tend to encourage and promote the enactment of unemployment-insurance legislation in the different States.

I think any reasonably minded man will conclude that such legislation is needed in order to meet the unemployment situation during normal periods. It is too much to expect that we could meet a condition such as we have been passing through during the last 4 years by the enactment of legislation of this kind. If unemployment-insurance laws were in effect in the different States, the probabilities are that the entire national resources must of necessity be mobilized, as they are now, in order to meet the distressing extraordinary situation which prevails. But it can all be softened and perhaps you would tend to prevent it, if through the enactment of legislation of this kind we can constantly maintain in the hands of the masses of people a buying power which approximates at least their social needs.

Now, I do not know that I can add anything to what I have said, because I am stating, Mr. Chairman, in all sincerity, the attitude of the American Federation of Labor, arrived at after careful consideration. We have always believed that it would be far better for our social and economic order if employment could be furnished the workers so that they could earn their living as decent, upstanding American citizens. We prefer that. We believe a man will maintain his independence and his manhood better if he is permitted to earn a living, but we have found from experience that we have not yet mastered our economic forces, so that we can maintain an economic

order which will guarantee and grant to the workers of the country even limited opportunities to earn a living.

That being the case we are inevitably forced to this position: That industry must assume its obligation. And, after all, industry serves only as the instrumentality through which the cost of it all is passed on to the public, but industry must assume its obligation through the pursuit of this plan, which will bring to the workers at least a sufficient amount of income to take care of them during seasonal periods of unemployment.

Now, Mr. Chairman, I will be glad to answer any questions that you and the members of the committee might ask, if you so desire.

Mr. LEWIS. Mr. Reed, have you any questions?

Mr. REED. I think you have covered the ground which I had in mind, Mr. Green, but it seems to me that an employee who feels secure in his job will be a more valuable man to society, as well as to his employer. Do you not think so?

Mr. GREEN. I should answer "yes" quickly to that; yes, sir.

Mr. REED. You think, looking at it from a manufacturers' point of view—and I am not a manufacturer—but it seems to me that there would be a great saving in the turn-over in labor, which is of very great expense to the manufacturer. If a man feels insecure in his job, he is naturally restless and worried.

Mr. GREEN. Yes, sir.

Mr. REED. And the tendency is that he will be looking for something better, always looking for security, and that leads to a great turn-over in labor. I understand that the figures of the turn-over in labor in many industries are extremely high.

Mr. GREEN. Very high in some. It is high in the automobile industry.

Mr. REED. I know it used to be. I do not know about present-day conditions, because I have not given them any study.

Mr. GREEN. It is now very high.

Mr. REED. So that it seems to me that while you tax the manufacturer, at the same time that tax would not be very great when you consider the saving in the turn-over in labor. A man who is secure in his position is more valuable to the manufacturer. He craves security more than any one thing. He craves it for himself and he craves it for his family. I think you will agree with me that something of this kind, of a practical nature, that is workable, would be beneficial along those lines.

Mr. GREEN. Yes, sir. I did not go into that phase of the matter, Congressman, because I presumed that it would be presented to you by others, but that is a very important phase of the matter. I am confident that a full return for the investment made by industry will come through the maintenance of a trained force. As you say, it will create in the mind of the worker a feeling of security. You know that counts heavily in the relationship of the worker to industry and to his job. Then it helps the family life. It relieves that terrible feeling of anxiety. If we could only create a social order, an industrial order, an economic order, where a working man and his family depended upon him could enjoy the thrill of feeling secure, we would allay a lot of this terrible unrest which is filled with such grave social complications.

Mr. REED. Then there is another point of view which interests me very much. You take the workingman where he has no sense of security. That is known to the people from whom he buys a home or from whom he rents.

Mr. GREEN. Yes, sir.

Mr. REED. If they think he is insecure and may be leaving his job at any time through unemployment, they naturally, as a practical proposition, charge him a higher rent or are apt to charge him a higher rent than they would if they had a man who is likely to be a steady renter and able to pay throughout a period of years. There is a stabilization factor in the community.

Here is another thing: We are trying to encourage people to purchase homes in this country. A man, unless he has some sense of security, and who has to buy a home on credit, no matter how easily the payments may be, he does not dare become a home owner.

Mr. GREEN. That is quite true. You will find that in credit houses. They usually charge more for the goods they sell because they must cover up in their income what they lose through some customers who just cannot pay. I am sure that if men were guaranteed an income during periods of unemployment, it would tend to create better credit for the working people of the country.

Mr. REED. That is the viewpoint I get from the testimony which I have heard here, or at least that has come to my mind. I have been very much interested in the facts which you have presented.

Mr. LEWIS. Are there any further questions?

Mr. WEST. Mr. Green, I am interested very much in your statement, that you do not regard the 5 percent in this bill as being too high. We have had some statements made by witnesses who have appeared before the committee that 5 percent would be too great a burden on industry. You feel that the purpose of encouraging States to take action is one reason for feeling that the 5 percent is a reasonable figure?

Mr. GREEN. Yes, sir. The 5 percent is on the pay roll.

Mr. WEST. On the pay roll. So that it is not reflected at its full percentage.

Mr. GREEN. It is not reflected at its full percentage.

Mr. WEST. That is, in the price.

Mr. GREEN. Yes, sir.

Mr. WEST. I know in different industries, because labor costs vary, that it is difficult to arrive at any average percentage that might be regarded as the labor cost. Is it fair to take any average figure, and, if it is, what is it likely to be? That is, what is the labor cost likely to be of the total?

Mr. GREEN. I am unable to say just now; but in Ohio, particularly, Congressman, you will recall that a committee, of which Dr. Leiserson was the chairman, made a very exhaustive study of costs and filed a very interesting and most educational report. I did have on the end of my tongue what they concluded would be the cost based upon the payment of certain benefits over certain periods of time to industry in Ohio, but it was surprising to me because it was so comparatively small.

Mr. WEST. Yes, sir. I got that impression also.

Mr. GREEN. Yes, sir.

Mr. WEST. I have the report of that commission, but unfortunately we have been so busy lately that I have not gone into it thoroughly as yet.

Mr. GREEN. I would recommend that, so far as it is possible, all of you might with profit examine that report. It is one of the best that I have ever found.

Mr. WEST. It is a splendid piece of research that was done by that committee in connection with this subject. Even if it were approximately 25-percent labor cost, say, on basis of 100, and 25 percent for transportation, and 25 percent for material, just assuming that, and then allowing 25 percent for profit, if you would base your 5 percent on the 25 percent, you would have only 1.25?

Mr. GREEN. That is all.

Mr. WEST. Reflected in the final analysis.

Mr. GREEN. That is all. So that it would be comparatively small in the final analysis.

Mr. WEST. That is the point I make.

Mr. GREEN. That is the reason that I say I regard it as a very reasonable exercise of congressional power, reflected in the 5 percent on the pay roll.

Mr. WEST. I know how interested you have been in this subject for many years, Mr. Green, and I know what splendid contributions you have made toward legislation for the improvement of labor conditions, and we are very pleased to have your testimony here tonight. Is it not a fact that over a period of several years there has been an increasingly diminished percentage of our income going to labor?

Mr. GREEN. Yes, sir.

Mr. WEST. And an increasingly large percentage going into industry?

Mr. GREEN. Yes, sir; that is true.

Mr. WEST. As a matter of fact, I think the figures are somewhat like this: In the 5 years before 1929, 13 percent represented the increase in the volume of wages and 72 percent represented the increase in industrial profits, and 265 percent of corporation dividends. That increase in industrial profits has gone into unwarranted industrial expansion, and labor has been subjected to an increasingly diminished return, so that the purchasing power of the Nation has not been able to absorb the increased production. Now, is it unwarranted on our part to assume that it is fair to reverse that trend, to some extent, by perhaps imposing this additional burden upon industry to provide reserves to prepare for the exigencies of unemployment?

Mr. GREEN. I do not think it is; no, sir. I appreciate fully the part that the imposition of this cost upon industry will have in the wage standards, but I think it will work out just the same as workmen's compensation legislation has worked out, because they are very similar. It was argued, as you will remember, that the cost of workmen's compensation borne by industry would mean a lowered wage income for the workers, but it has not worked out that way. The facts are that the wages of workers have increased even in our State of Ohio, where we have, I think, one of the finest workmen's compensation laws.

Industry absorbed the cost very well, because it passed it on to the consumer, and it has always been regarded as a fixed charge upon

industry and upon goods produced. And I am of the opinion that it will work out just the same as the workmen's compensation laws have worked out in the different States.

Mr. WEST. Do you see any reason why we should not encourage the adoption of this measure now in preparation for a return of more normal business conditions in this country? The contention has been made that now is a very unwise time, when we are in the midst of a very serious depression, to consider anything like this. Do you see any objection to planning for the future along this line?

Mr. GREEN. I thought that over very seriously and I, along with other thinking people, would hesitate to favor the adoption of any plan or project which would tend to prevent rapid economic recovery. But in thinking the matter over it appears to me that we are moving along the road of economic recovery in a very substantial and definite way. Now, it will be some time before this law will become operative, even if it is passed by Congress during the present session. It will be some time later on before the different States will enact unemployment insurance legislation. It appears to me, keeping those facts in mind, that we should not delay the matter any longer. That is the thing which impresses me.

It is not a question of being in the midst of a depression, but it is a question of doing the thing now preparatory to a return of normal conditions, so that we can take care of unemployment during normal periods and perhaps prevent, through the enactment of such legislation, a return of such a condition that now exists.

Mr. LEWIS. Mr. Cochran.

Mr. COCHRAN. Mr. Green, a witness appeared before the committee yesterday and advocated the passage of this legislation. He stated that the payment of unemployment insurance conferred benefits not only upon the employee but upon the employer and also upon the public and he advanced those facts in favor of contribution by employee, employer, and the public toward the building up of unemployment insurance reserves. I would like to have your opinion upon the subject of contribution.

Mr. GREEN. Congressman, I have always believed that the cost of unemployment insurance should be borne by industry, although I have not assumed a rigid position on that matter, because I feel that it must necessarily be left to the States to be worked out in accordance with public opinion and the circumstances within each State. In some States perhaps the law would require some contributions on the part of both industry and the workers, but I am of the opinion personally myself that the employer, the public and our entire social order are all benefited through the enactment of unemployment insurance legislation, that provides that industry should bear the burden.

For, after all, we have no other instrumentality so well adapted and so well suited through which the cost of it all can be passed on to the public as by imposing it upon industry. And the worker will then pay, of course, his share, because he will naturally, in the purchase of goods, the products of industry, pay his share toward the cost of unemployment insurance. You and I will pay it; everyone will pay it. Why should it not be uniformly and equitably distributed upon all consumers? If you place part of it upon the worker he cannot pass it on. He must absorb it. It must come out of his limited

income, his wage. But if placed upon industry, he bears his share of the cost along with every other consumer.

Now, that seems to me to be fair and just.

Mr. COCHRAN. How long should unemployment continue before unemployment benefits should be paid? In other words, what should be the waiting period?

Mr. GREEN. That varies. Some provide for 10 days, I think, and some 2 weeks, or some 1 month. There is no fixed rule on that, Congressman. I cannot at the moment just recall the waiting period fixed in the one statute providing for the creation of unemployment reserves, which is the Wisconsin statute.

Then there are the two forms of unemployment insurance advocated by different groups. The one providing for the creation of reserves and the other for the creation of State funds out of which benefits will be paid. I believe that Dr. Leiserson and his committee, in the report that committee made, supported the State insurance fund plan. In Wisconsin, as you know, it is the unemployment reserve plan.

Mr. COCHRAN. I understand, but over what period of time should unemployment benefits be paid?

Mr. GREEN. That is another matter that must be left to the different State legislatures. That varies, as you well know. I presume that it would have to be limited to a period that would seem to be reasonable and fair. I think some of the plans suggest a 6 months' period and some less, and some more.

Mr. REED. I was very much interested in one of the questions asked by my colleague, Mr. Cochran. It strikes me that it would be necessary to have some different plan in regard to the allocations of these contributions. For instance, assume that one State saw fit to take it from industry, and another State decided to take it from industry and from labor, and a third State decided to take it from the public and from industry and from labor. Assume that it differed in each of those States, and that in those States there were industries, comparable industries. That is, suppose the State which takes it all from industry has a line of industry producing the same articles as an industry in the State taking the contribution from industry and labor, and in the third State, industries are located in the same line of business, where industry pays part of it, labor pays part of it, and the public pays part of it. In that case you would have an advantage in the cost of production in the two States over the other, would you not?

Mr. LEWIS. Mr. Reed, may I interrupt?

Mr. REED. Yes, sir.

Mr. LEWIS. The bill would not permit that.

Mr. REED. I am not saying that, but I was raising it as a question. I was wondering if you had thought that out, Mr. Green, because the group of industries which had to bear the full burden would have a disadvantage in going into the market in competition with the others. I only mention it because it comes to my mind.

Mr. GREEN. Of course, this bill, Congressman, does not deal with that phase of it.

Mr. REED. I know it does not.

Mr. GREEN. It, however, imposes a uniform tax upon pay rolls.

Mr. LEWIS. Yes, sir.

Mr. GREEN. But it would be desirable, of course, if we could secure the enactment of uniform unemployment insurance legislation.

Mr. REED. That is something which would have to be worked out in the States in order to do justice?

Mr. GREEN. It would have to be worked out in the States and would be very desirable, if we could do it.

Mr. LEWIS. I am afraid that there is some doubt here. Under this bill whatever the merit of the argument, the employer will be required to contribute a fixed amount. If employees also contribute, if the State then contributes, it will only mean two additions to the fund.

Mr. REED. That is what I wanted to get clear in my mind.

Mr. LEWIS. Yes, sir.

Mr. REED. You can see the point that I had in mind.

Mr. LEWIS. Those additions to the fund might be applied to the great purpose of human relief in this field, by lessening the waiting period, or by extending the period during which benefits would be payable.

Mr. GREEN. Yes, sir.

Mr. REED. I assume that the States which saw fit to have the employee pay for it and the public pay for it, whatever they created would be in their own State fund.

Mr. LEWIS. Yes, sir.

Mr. REED. That is, they would build up a little greater reserve in their particular State.

Mr. LEWIS. And would provide for its utilization through improvements of the benefits. The benefits under the State legislation may be made greater than those required as minimum under this bill.

Mr. REED. There is one other question I would like to ask.

Mr. LEWIS. Is that matter clear?

Mr. REED. Entirely. Have you communicated at all with the labor organizations in England, Mr. Green? Have you any definite expression from them how their plan has worked out over there?

Mr. GREEN. We have a great deal of correspondence on that and we have made a very complete investigation of it. It has worked out so well that it is really a part of the fixed policy of Great Britain. In fact, I think that it is most popular among all classes of people.

Mr. REED. That is what I wanted to know.

Mr. GREEN. There is no one who opposes the legislation, the principle of it. There has been, of course, some differences of opinion as to the character of the legislation itself, but that is all. In fact, I think it has served more than anything else to maintain and stabilize the political situation in Great Britain, than any other piece of legislation.

Mr. LEWIS. Just one question. Of course, it is understood on all hands that this is not considered as a remedy for depressions, or as a preventive of depressions, and I think I can assume that you would not consider it as a substitute for the reduction of the hours of labor in the United States to a 30- or a 32-hour week, which you have been supporting.

Mr. GREEN. No; not at all, Congressman. I think I made that clear, or tried to make it clear, that we could not regard unemployment insurance legislation as the instrumentality through which we could adequately meet a situation such as now exists.

Mr. LEWIS. Yes, sir.

Mr. GREEN. I said that perhaps at all times the entire resources of the Government must be utilized to meet such a situation as this. It is intended, as I understand it, to meet a normal situation.

Mr. LEWIS. Any further questions?

Mr. COCHRAN. Mr. Green, I have become sympathetic toward unemployment insurance since the beginning of these hearings. I think mainly because I gave it no study before. After listening to quite a number of witnesses, I lean to the opinion that good unemployment insurance laws may avert minor depressions by sustaining the purchasing power. Would you go as far as that?

Mr. GREEN. I will say that it will make a very distinct contribution toward the prevention of minor depressions. I will agree heartily on that, because, as you sustain the purchasing power of people, when these periods of economic reaction come, you can maintain a flow of goods from the producer to the consumer, and, so far as commercial goods are concerned, it seems to me that you can soften the blow, as it were, that must inevitably follow from a depression. I think it will serve very greatly toward prevention, and, as the old saying is, as you know, "An ounce of prevention is worth a pound of cure." If we can distribute millions of dollars out of our unemployment reserve funds among the working people, who will spend it freely, as you well know, it is bound to have an effect upon the economic situation, because, after all, it is buying power that sustains our economic structure. Just in proportion as it is increased, just in that proportion will the volume of goods manufactured and sold be increased.

Mr. LEWIS. The committee thanks you very much, Mr. Green.

Mr. Flanders will you please state your name and relation to the subject matter, and give us your residence?

**STATEMENT OF RALPH E. FLANDERS, SPRINGFIELD, VT.,
PRESIDENT OF THE JONES & LAMSON MACHINE CO.**

Mr. FLANDERS. My name is Ralph E. Flanders. I am president of the Jones & Lamson Machine Co., of Springfield, Vt., making machine tools, and, therefore, a manufacturer. I have several other connections which might be pertinent. I have just retired from membership on the Industrial Advisory Board of the N.R.A., in the course of the rotating membership. I am chairman of a committee on economic balance of the American Engineering Council. I am a director of the Social Science Research Council.

In what I say tonight, I speak, however, strictly as an individual. In fact, so far as my company is concerned, I do not even speak for my associates in the company. So that while this gives my connections, it gives me no authority to speak for anyone except myself.

I would like to say that I completely approve of the purpose of this bill, and I am inclined to approve, so far as my judgment goes, the means, the very ingenious means which this bill uses to insure a Nation-wide unemployment insurance scheme.

As Mr. Green so well said, we cannot afford to have the working population of the country in a state of anxiety and worry. A civilization as rich as ours, and as physically capable of producing goods

is bankrupt intellectually, morally, or some other way, if it cannot provide a reasonable amount of security for its citizens.

We want to do this, and I believe we can do it, and we must do it in some form. The amount of the assistance that can be rendered under this bill is evidently not enough to take care of the large cyclical periods of unemployment. The 5 percent on the pay roll is larger than it need be to take care of incidental and local and what unfortunately might be called a normal unemployment in ordinary times. Probably 3 percent would take care of this, which is the only kind of unemployment which insurance can compensate for.

I do hope that the various States which operate under this act will go toward State funds rather than to industry funds because industries, certain types of industries, and their workmen, are victims and not causes of unemployment. That is particularly true in capital goods industries, to which my firm belongs. They have extreme ups and downs, for which there is no internal remedy inside of the industry; and, therefore, no real measure of relief, as compared with industries making the necessities of life, for instance, can be afforded unless support comes from industry in general instead of from the particular firm or the particular industry subject to these extreme variations.

I would like to emphasize the fact that only to a minor degree is the problem of unemployment a problem within the control of the individual employer. It is a general social and economic problem, and only to a minor degree the problem of the individual firm or even of the individual industry.

I have one minor and one major criticism to make, and my minor criticism refers to page 9, line 17, of the bill, which provides:

"That no otherwise eligible employee shall be barred from or denied compensation for refusing to accept new work * * * If acceptance of such employment would either require the employee to join a company, union or would interfere with his joining or retaining membership in any bona fide labor organization."

I would like to add "or require his joining any bona fide labor organization."

My experience with workmen indicates that many of them are as much adverse to the closed shop as they are to the company union, and that ought to be recognized. My suggestion would be that that article be completely stricken out or else that it be made a 50-50 proposition. The real thing there which ought to be taken care of is item no. 1, which reads: "If the position offered is vacant due directly to a strike, lockout or other dispute." I am sure that no otherwise eligible employee should not be asked to take unemployment under those conditions. But I would like to see all forms of unions, whether company or otherwise, be on the same basis.

I have another objection, which I put on my notes as a major objection to a passage on page 11, lines 12 to 13, where it provides for giving liquid availability to these funds. I believe that every serious student from the economic standpoint of unemployment reserves or unemployment insurance, in any form, has been impressed with the serious danger of the financing of the thing if done on a large scale.

It makes little difference if one or two States in the Union gather or accumulate large unemployment funds during good times, invest them in securities, as you have it here, and get them so that they are available and assure liquid availability, and then when hard times

come on sell the securities, realize on them in cash, and use the cash for unemployment relief. If one or two States do that, it is not a serious matter, but if industry as a whole, in every State in the Union, with 5 percent of the pay rolls, perhaps, for 2 or 3 prosperous years has invested in securities so as to have available liquidity, that vast sum of money is going to be used for buying stocks when they are going up and it is going to intensify the boom. After the boom is over and unemployment comes on, that vast accumulation of securities is going to be sold when stocks are going down, and it is going to accentuate the downward move of the cycle.

I think every serious student of the problem has recognized that fact. I would urge that unless some means is taken through this bill or otherwise for a careful control of the financing of these unemployment reserves, that you are liable by that means to produce more unemployment than the provisions which you are enacting will prevent.

This is not a new subject. It is one that has had careful consideration, and I would suggest the names of three men who have studied it carefully, one of them being Prof. Alvin Hanson, of the University of Minnesota, another being Prof. Paul Douglas, of the University of Chicago, and the third being Prof. Sumner Slichter, of the Harvard Business School.

Mr. LEWIS. We have heard from the latter two.

Mr. FLANDERS. And they mentioned that point?

Mr. LEWIS. The subject has been presented pretty well.

Mr. FLANDERS. I think it needs more than presentation. It needs your careful consideration. You have got to have some way to assure yourselves that the 48 States do not handle these funds in such a way that you are worse off as a result of this legislation than you would be if you did not have it.

Mr. LEWIS. The suggestions generally have been that the funds be deposited with the Federal Reserve, and that the Government could, through the Federal Reserve, provide the necessary liquidity.

Mr. FLANDERS. That is an excellent suggestion, but do not let the bill go through as it is.

Now, I want to be rash and suggest a more thorough-going solution of the problem of relief unemployment, of which this might well be an element. I do not know whether you are prepared to go beyond this bill or not, but I would like to very briefly.

Mr. LEWIS. We would very much appreciate your views, Mr. Flanders.

Mr. FLANDERS. What is suggested in this bill is for the local and temporary and what we unfortunately have come to consider as the normal unemployment. There are about three levels or means of taking care of unemployment. For a second level I would urge what has been in part already initiated by the President, although I think not quite in the thorough-going way that it needs to be: A reorganized and rationalized C.W.A. and C.C.C., and other things besides, not hastily improvised for an emergency, as was the case this past winter. It wants to be a permanent organization, built up with the highest esprit de corps possible, under the Army engineers. I make that just as a suggestion.

It wants to have prepared for it, ahead of time, an expansible and contractible body of work. And there is existing in the Government

at the present time a body which is perfectly capable of planning for that work, and, in fact, I think is considering doing it, and that is the planning board in the Public Works Administration. I want to say that that planning board has a most excellent personnel, and the members of it have assured me that the amount of desirable work—not raking leaves from one end of the road to the other and then raking them back again—but the amount of desirable work that can be found in this country for making it a desirable place in which to live, from Canada to the Gulf and from the Atlantic to the Pacific, which involves physical labor—I have been assured that the amount of that work is enormous. It can never be completely carried out or carried through. We do not need to rake leaves back and forth on a 10-acre lot. We can put people to work that will make this country a fit place for its citizens to live in.

That ought to be so handled, through good times and bad, that no man at any time can say that he can't find work at subsistence wages. When a man begs for something, if he is able-bodied, we will know that he can have work.

It should be for thousands in good times and for millions in bad times for all comers. I would even go further and hope that there could be built up in it such an *esprit de corps* that young and adventurous men out of school, wanting to see the country a bit before they settle down, would go into it and have their living and clothing and subsistence and feel that they were taking part in the housekeeping of the country in which we live. In short, it ought to be, and can be that thing that the Boston philosopher, William James, dreamed of a generation or two ago: "The moral equivalent of war", something that can inspire instead of being the more or less humanly deadening thing that the C.W.A. program has been today.

That is the second level. The third level would be the Public Works Administration, perpetuated as a permanent policy, again with plans provided and well in advance by this same planning board which they have already set up and which is operating, and which again I must say as a most remarkable, capable personnel. With that thing on a permanent basis and with plenty of work provided for ahead of time, which should be given out as unemployment increases, we can, under ordinary commercial conditions, have a situation that is pre-planned and adjustable.

There are three levels of relief. The first level is this which you have provided for in the bill, to take care of the transient, the local, and the beginnings of general unemployment. The second is to take care of the larger mass of unemployment, which can be properly organized on more extensive work. And the third is the Public Works, which is straightforward contract work under normal contracting conditions.

Now, it is important that in this grading into three groups that the payments be graded also. The first grade or type, as provided in this bill, should be the lowest degree of payment. It is for temporary relief. The second grade of the suggestion is the C.W.A. and C.C.C., which should be somewhat higher, enough so that for months at a time it will provide clothing, shelter, subsistence, probably graded in part by the number of dependents a man has, so that while he cannot have all that he needs and deserves, he will at least feel that, under

that second grade of subsistence, his family is not going to starve or be shelterless or be without clothing.

The third, as I say, should come up to the ordinary commercial level of payment like the P.W.A.

Furthermore, those three gradations of relief should be centered in and coordinated by a properly developed employment service under the Department of Labor. That employment service should be either a complete Federal employment service or a Federal-supervised State employment service, and should be the place to which the workman goes to obtain his relief, under either one of these three grades, whether under that which this bill provides, whether under the slightly higher payments of the C.W.A. or for recruiting for working in the P.W.A.

It is exceedingly important that we do this for a number of reasons. One reason is, if these employment agencies are made the means by which men get relief and work, when they are unemployed, we are going to have, for the first time, thoroughly reliable unemployment statistics. We have none at the present time. The Department of Labor and the Federation of Labor do the best they can with those statistics, but no one acquainted with the statistics believes that they are thoroughly reliable. The only way to get reliable labor statistics is to have them obtained by the board or the organization which furnishes the relief. You can be sure that all unemployment will report under such a set-up.

Now, I might just say that I think most of my fellow industrialists or business men would feel that the cost of enacting these three levels of relief would seem tremendously high, the expense of it would seem unendurable. I would like to say they seem high under the present conditions. I would like to say that I have been pessimistic at times as to how long it is going to take us to get out of present conditions.

With your kind permission, I am going to take about 5 minutes to "blow off steam." I will try not to take more than 5 minutes, and will take out my watch.

There are various economic fallacies which are abroad and which hinder recovery seriously. One of them is that recovery is a matter of the number of people employed, or increase in pay rolls, or what not, without taking into account the amount of goods that are made and distributed. That is not so. You can double the people employed. You can double their wages, and if you do not increase the amount of goods made and distributed, there is no recovery. That is what wages and employment are for, to buy and use and consume goods. This has not yet been a good recovery.

The improvement in goods actually made and distributed since last July has been small as compared with any hard times from which we have previously recovered. I believe it is because we are looking at pay rolls and looking at wage rates instead of looking at what is being made and distributed to consumers which accounts for the fact that we are getting a false idea of recovery.

I have certain beliefs as to the reasons why we are off the track. I think we have rather fallacious ideas as to the mechanism of a profit—incentive, and credit-money economy. We feel as though there were a certain amount of work to be done, and that it must be distributed. We feel as though there was a certain fund available for wages, and that we must distribute that as best we can.

Now, as a matter of fact, the funds for the purchase of goods are generated by the making of those goods themselves. The funds of bank credit money, which is nine times the available hard cash, is all generated by borrowing, by people who feel sure of the future, who feel hopeful of profits, and are willing to go and borrow money from the bank. Every cent of those funds, aside from the hard cash in our pockets and from that in the reserves, is made by borrowing money. Until business is confident of the future, until it sees profit ahead and is hopeful of profits, the mere facilities for expanding credit on a large scale do no good. There must be a hope of profits there before those facilities will be used, before the funds will be made by borrowing, and before the goods will be made which those funds can buy.

Here is one other fallacy—there are several, but I will give this one to you and quit, because I have only 2 minutes left: There is this fallacy—that funds put in the bank, or a fund received in profits, or funds received in bonuses, or in large salaries or in dividends, are in some way lost to purchasing power and lost to general business. That is not so. There are only three ways to keep funds out of business. One is by hoarding, the actual hoarding of hard money. The second way is by expatriating it in funds sent abroad, and the third way is by paying off bank indebtedness.

Now, there is a whole lot of difference between paying off a debt to a savings bank and paying off a debt to a commercial bank. In paying off a debt to a savings bank, the money is available for somebody else to borrow. You pay it off to a commercial bank and you have extinguished the funds; they are gone. On the other hand, when you borrow of a commercial bank, you make the funds.

There are those three ways, hoarding, expatriating funds, and paying off bank indebtedness.

If Congress, if the administration, is willing not merely to permit business to exist, but if it is willing to encourage the making of profits, to encourage the expansion of business enterprise—in the case, for instance, of investment, not merely to try to safeguard investment, but to encourage investment—if it is willing, in other words, to get into a completely different frame of mind, you will have more goods to distribute, you will have more wages to pay, you will have more business to do, and we will get out of the present depression much faster than we are at the present time. And if we can wisely manage this profit-motive, credit-money economy, we will have plenty of reserve production and wealth to finance a thorough-going solution of the unemployment problem. Otherwise our efforts will be hopeless.

I am glad to be able to talk to four Congressmen, even if I cannot talk to the whole lot, but I do beg you to encourage business enterprise, because on it depends the income and the pleasures and the satisfaction of that vast group of people whom Mr. Green represents, as well as my own personal income and my own personal satisfaction.

MR. WEST. May I ask a question, Mr. Chairman?

MR. LEWIS. Yes, sir.

MR. WEST. Mr. Flanders, is there not a proper relationship between this volume of wages and the volume of production, and is it not true that that balance became maladjusted in the period prior to 1929, when we had an abnormal period of production, an increase in production and a decline in employment, and is it not essential at this

time that we do something to bring about a reemployment so as to build up this purchasing power in order to absorb production?

Mr. FLANDERS. That overproduction of 1927, 1928, and 1929, is kind of a Freudian complex. It affects business men just as much as it does anyone else, but it is a Freudian complex, nevertheless. In 1929, we did not make and distribute enough goods to give the families of the workers of this country a decent standard of living. We underproduced in 1929. Now, you may say that there were some things which we overproduced, and there were. We overproduced, comparatively speaking, particularly hotels and apartment houses and office buildings. We overproduced wheat and we overproduced some natural resources. The natural resources involved are in a class by themselves. But that overproduction of speculative building was not done from savings derived from undue profits. It was done from credit inflation.

Now, I can conceive of a situation in which too much went into savings and investment and not enough into wages and the lower grade of salaries. I can only say that that thing has never happened yet. We generated an immense mass of inflated credit in 1927, 1928, and 1929, and it was that immense mass of inflated credit, manufactured by bank borrowings, applied to investment, where it does not belong, that did the overbuilding and did some degree of overindustrial expansion.

Mr. WEST. But it made possible the absorption of the production during those years; from 1925 to 1929, we had an increase in the volume of production of 42 percent, but we had a decline in the volume of employment of 6 percent.

Mr. FLANDERS. We did; yes, sir.

Mr. WEST. In other words, we had an increase in production and a decrease in employment.

Mr. FLANDERS. Yes, sir.

Mr. WEST. So that at the height of the boom, we had two or three million men out of work in 1928, and when we had an increase of the industrial income of 7 billions in 1928 or 1927, we had a decrease of 600 million dollars in the volume of wages. There was a maladjustment there that had to be corrected before you have got the volume of employment, making a volume of wages to absorb this production. It may be that it is true, as you say, that the inflation of credit made possible the absorption of that production. But that is an abnormal condition that has to be corrected, and you have got to return to a larger body of workers and a larger volume of wages before you have a normal condition. Is not that true?

Mr. FLANDERS. In the first place, industrial employment decreased, as you say. About 6 percent, was it not? I forget just what the figure was.

Mr. WEST. The volume of production increased 42 percent, while the body of laborers decreased.

Mr. FLANDERS. The body of laborers decreased somewhat. That is something which we may expect to continue, that gradual decrease in industrial employment, but it will be and could be more than made up by the increase in the professional and service industries of all kinds, and I think was. Men like Paul Douglas, for instance, who I think is a leading authority on employment, have not found that the amount of unemployment at the top was any greater than

normal, when you take all types of occupations outside of industry, as well as industry, into account.

Now, I think that that normal is too much, and this bill will take care of that normal. That is what this bill is for. I doubt if you had any particular distress from those who were not in industry on account of the great growth of the service and professional and similar types of occupations which must grow.

Mr. WEST. Your statement, which I was criticizing, was that the present reemployment program in connection with the National recovery policy was based upon a fallacy.

Mr. FLANDERS. I would not say all fallacy, but I think a measure of it is, as measured by the slow recovery in the making and distribution of goods. There has not been proper realization that this is the true objective of recovery.

Mr. WEST. The fact that the objectives have not been reached in full does not establish its fallaciousness.

Mr. FLANDERS. These theories I say are fallacious, on which we are acting. I may say that I was convinced 2 or 3 years ago that the maldistribution of income caused the situation in 1927, 1928, and 1929. I began to think about the matter when, in March 1931, we passed a bonus bill, which distributed pretty nearly 1 billion dollars in funds right direct to the consumers, where it would seem that it would have done the most good. Those funds disappeared completely from circulation in a month or 6 weeks, just as if they had been swallowed up. There was just a brief increase in business and then they disappeared. They went to paying off bank indebtedness, and when they pay off bank indebtedness, the funds disappear completely and are gone.

In other words, the consumer-purchasing-power theory does not hold water in and of itself unless you know what you are doing with bank credit.

Mr. LEWIS. Have you any questions, Mr. Cochran?

Mr. COCHRAN. Your mention of high salaries, Mr. Flanders, brought to my mind the publication a few weeks ago of the large salaries received by officers of various corporations.

Mr. FLANDERS. Mine was not along with them, I am sorry to say.

Mr. COCHRAN. Have you any observations to make along that line?

Mr. FLANDERS. Yes, sir; I have. There were all kinds of people in that list. I happen to know one case, which will illustrate the point which I am trying to make about the constructive factor in business, which is derived from business initiative. One of those men who stood well up in that list, a man who got three to four hundred thousand dollars a year clear through the depression, is a man about whose business I know a little something.

He is a man who by unusual business acumen and ability built a business which was a fair business in 1929, into a better business in 1930, and into a better business in 1931, and into a better business in 1932, and into a better business in 1933, and he was not in the consumer goods business, either. Now, he did not take that business away from any one. He made it. He not only merely made it, but indirectly by bank borrowing, he generated the funds for the purchasing of the stuff he made. He employed continuously a larger number of men and business was better for what he had done; and the payment of his bonus was dependent not on some arbitrary rule which would be difficult for a stockholder to understand, but was

made on the basis of returns to stockholders. I do not know what wages he paid, but I do at least know that several thousand men had work who would not have had work if he had not been an unusual man.

Accordingly to my lights, that is worth three or four hundred thousand dollars a year; and that three or four hundred thousand was not lost to general purchasing power.

Mr. COCHRAN. Will you name the business?

Mr. FLANDERS. If I name the business, you could pick out the man. I do not know that he would feel very badly if I did name him, because I am speaking well of him, as you can see. The company was in the office supply machinery business. I will say that much, and you can hunt out the man.

Mr. LEWIS. Any further questions, gentlemen? Let us not forget that there are a number of other witnesses yet to be heard tonight. Mr. Flanders, that is all. Thank you very much.

Mr. LEWIS. Dr. Ryan. Dr. Ryan, you are connected as a teacher with the Catholic University of America, I believe.

Dr. RYAN. Yes, sir.

Mr. LEWIS. What is your relation to the university?

Dr. RYAN. I am professor of industrial ethics and dean of the faculty of Sacred Sciences.

Mr. LEWIS. Will you give the committee the benefit of your views on this subject, and any information which you think will be helpful, Dr. Ryan?

STATEMENT OF DR. JOHN A. RYAN, OF THE CATHOLIC UNIVERSITY OF AMERICA, WASHINGTON, D.C.

Dr. RYAN. Mr. Chairman and members of the committee, I really have not any important contribution to make. I have not prepared any statement, and all I can suggest is some very general considerations. As I see the matter, there are two fundamental things involved in this proposed bill, or in any other proposal for unemployment insurance. The first is the source from which the insurance payments should come. They may come conceivably from the State or from industry. Now, it seems to me they should come from industry, and that means ultimately from the consumer, because in our industrial system the employer, as William Smart, of Glasgow, expressed it many years ago, "The employer is society's paymaster," and he gets possession of the product out of which all payments must be made, and the worker, since he gets his living out of industry, has no other source of living, ought to get all of the goods which are necessary to enable him to live a reasonable life, and that means security for the future and security which protects him when he is out of work.

Therefore, I take it that it is fundamental that the payments for unemployment insurance, as well as for workmen's compensation, and every other normal payment to the worker should come out of industry, which means, as I say, from the consumer rather than from the State.

That is the general theory. I realize that it is not always practicable to carry out that fully, but I should think that 5 percent of the pay roll is within the competence of most employers to pay. I could not prove that any more than a person who comes in here and says,

as I believe some have said, that 5 percent is too high can prove the opposite. But I just take it for granted that that is a fair payment.

The second fundamental consideration is how that is to be enforced, that payment, so far as the Federal Government is concerned, or so far as this bill is concerned, or, in general, how are you going to enforce a payment by the employer to the worker?

We prefer State insurance schemes, but the States do not all act at once, nor do they act with uniformity, so that there has to be some pressure from somewhere to get that uniformity, if industries in various States are going to have fair treatment, and if unfair competition is to be eliminated.

I think this bill contains a very ingenious means for enforcing action by the States.

I believe a year or two ago it was proposed here by some bill that the Federal Government should provide the States with a certain amount of money to be matched by an equal amount from each State that would enact an unemployment insurance law, coming up to certain standards. That is the old 50-50 basis, the old scheme of encouraging the States to do things by giving them a part of the money. I am not condemning it at all, but I think this method is very much preferable. This does not involve any outright expenditure by the Federal Government at all, but it does provide perhaps a superior method of getting action out of the States, because the employers who have to contribute 5 percent of their pay roll to this Federal fund, will be decidedly interested in getting an unemployment insurance law passed in the State where they live, and a law that will come up to the rather modest standards set forth or required in this bill.

I think that is all I have to say, Mr. Chairman. There is one point which I might mention, and which Mr. Green mentioned. I want to say that I agree with him, that the normal condition would be if the worker had wages enough to provide for his own future. That does not change the principle which I stated at the beginning; that is, this protection against unemployment would still be coming from industry, only it would be coming in the form of wages. I think that that would be very much preferable to any scheme of compulsion or State intervention, but we realize that a wage scale which would permit that would be impracticable.

That is absolutely all that I wish to say.

Mr. Lewis. Any questions? [No response.] Thank you, Dr. Ryan.

Mr. Lincoln Filene, of Boston, Mass. Will you take the stand, Mr. Filene?

STATEMENT OF LINCOLN FILENE, CHAIRMAN OF THE BOARD OF WILLIAM FILENE'S SONS CO., OF BOSTON, MASS.

Mr. FILENE. Mr. Chairman, and members of the committee, I am beginning to appear before you with a good deal of trepidation, after listening to these statements.

Mr. LEWIS. I think the committee would like to know your relations to this subject, Mr. Filene.

Mr. FILENE. Perhaps I better tell you who I am, so that will get me down in writing. My name is Lincoln Filene, chairman of the

Board of William Filene's Sons Co., of Boston, and also chairman of the Federated Department Stores, an affiliated group of department stores.

I need not say, perhaps, that I am in general approval of the bill.

Mr. LEWIS. Do you want to tell us something about the size of your business, Mr. Filene?

Mr. FILENE. I was just going to give you the pay roll.

Mr. LEWIS. Yes, sir, proceed in your own way.

Mr. FILENE. The employees in Boston, in the Boston end of the William Filene's Sons Co., that come under this bill would be 4,645 people. The weekly pay roll of that group is \$90,000. The employees that come under the four other stores in the affiliation to which I referred are 7,551, who come under this bill, under the \$250 a month. That represents a pay roll of \$158,577 weekly. And the total of those pay rolls is about \$250,000 a week.

One of the interesting things to bear in mind, I suppose, is that the average pay rolls in department stores, cover about 50 percent of the total expenses, so that this bill has a rather important bearing upon our industry.

I have a feeling that we have reached a time when it is necessary to take into consideration some of the very basic facts which have produced this situation and not the least among them is that in our development of mass production in this country, we did not think very much about mass distribution. If we had been willing, as business men, to have studied the day to day effect of mass production upon the problem of mass distribution, we should have been in quite a different situation in 1934, I think.

That would have made us do a great many things, and not be carried away with the idea that we could go on producing, on the assumption that consumption would always measure up to what we could make, which turned out to be a good deal of a fallacy. We would have made a great many different arrangements in our economic planning and in our laws.

Now, the result of all that is that the burden of unemployment, as I see it, has got to be recognized as falling upon society, and by "society" of course I mean everybody. This is not a welfare bill. It is a responsibility which is going to be upon all employers.

As Mr. Green so well stated, if business cannot learn to absorb costs in our social responsibilities, in our economic life, then society will have to do its share, but, as a matter of fact, as large as that amount seems to be, it probably would add about 1 percent to the cost of the sales of a business like ours.

If there is no other way of meeting such responsibility, society has got to assume it 100 percent. I take it for granted that society can assume that amount. It is not all thrown away, as Mr. Green again said. This money goes back into the hands of the people, and it creates a certain proportion of purchasing power which in itself has some redeeming features.

Now, the main thing to my mind that this bill does is to make the employers of this country constantly alive to the fact that as much stabilization in work as they can give will be a part of their daily business to figure out. As to my particular feeling in the matter, if the bill did not do anything else but help toward stabilization and do away with seasonal unemployment, so far as it is practical to do

away with it—and there are many ways in which it can be done away with, not completely, but at least in part— that means that business men would have to study their problems of production in such a way, and their possible selling power and the places where it should go, and how it is going, and when it is going, and the kind of things they are producing, and the right times at which they should produce them—they would make it their business as business men, to help to overcome the cost of seasonal unemployment, by doing all they can, assuming that as a responsibility as much as the responsibility for getting sales.

Now, the business men as a whole have not done that. That, to my mind, is the real value that this bill will bring about to society as a whole.

Then it is not at all impossible that even society is more or less at fault for some of the costs of doing business, and that there are a great many wastes that society demands of business that might easily be done away with and in a measure at least to overcome what added cost might be put upon business for carrying out the purposes of this bill.

You might even say that this sort of thing might be the beginning of a movement toward equalization of profits in business with the workers—not a very large one, but at least perhaps it is an entering wedge.

Now, you gentlemen on this committee probably will get the usual argument that business is not in any condition to stand this type of an added expense. Without attempting to criticize my fellow business men, I fail to find any time in the history of our economic life when business ever thought it the right time for this type of expense, that is, what we call the social economic responsibility expense.

Mr. LEWIS. Do not we sometimes take council of our fears as to our ability rather than taking council of our hopes?

Mr. FILENE. I think so. I had occasion 2 years ago when a bill was passed in Massachusetts to make some study, going back to 1845, of the attitude of the business man. Now, mind you, I do not say that there are not some business men, because there are some outstanding examples in this country, of business men who have always been ready to assume their full responsibility for social laws, so to speak, but away back in the early days, we were attempting to reduce the hours of labor in Massachusetts from 12 to 10, and as the years went on, to 8; to do away with women in the factories at night; to enact child labor and compensation laws, and whatnot; and the history of that whole time showed that the arguments which were being made against this type of legislation were exactly the kind of arguments which you hear against it today: "That Massachusetts could not stand it if other States could not stand it and did not have it"; "that it was too large a cost upon business to be precipitated at once."

A complete history of that experience is exactly the same kind of thing which you will hear in opposition to this bill. I have that information here, and I should be very glad to supply it to this committee, if they would like to see it, because it is taken from the records of the Massachusetts statehouse.

I do not want to be mistaken in condemning my kind completely. I said, and I repeat it, that there have been outstanding examples of business men in the country, but the percentage has been so small that you can honestly say that the business man on this type of legislation has always felt that business was not ready to stand it; that some day it should be ready but not today. So that I do not think that the committee ought to pay very much attention to that type of argument.

There is another phase of this bill which I think is sometimes lost track of. When all these different plans present argument as to whether the employer and the employee should contribute to this type of thing that this bill calls for, I am afraid we lose track of the fact that the employee is already contributing very largely to unemployment by being out of work. And just inasmuch as the employer is responsible for not prolonging this lack of work, just so much is the employee making his contribution to any unemployment fund that may be set up.

So that I do not think there is very much to be argued in that regard at the moment.

There is no objection that I can see to that, after we make our start.

Mr. LEWIS. You mean in the waiting period he is already making the first contribution?

Mr. FILENE. I mean being out of employment, without a job, he is making his contribution.

Mr. LEWIS. Yes, sir.

Mr. FILENE. After all, the employee is not responsible for being out of employment. It is our economic system which is responsible for that. And, as Mr. Flanders says, and rightfully, business is not always responsible for that, yet at least it ought not to be lost sight of that the employee is now making his contribution, and has been making his contribution. So the argument for employee contribution to be brought in at this time, according to my own personal opinion, should not be very seriously considered. There is no objection, after such a bill as this has been passed, and there is a system that is working, if the employers and employees want to get up some other scheme of contribution to a joint fund which they can add to theirs. There is nothing to prevent that. But we have got to get a start, and the way to make a start is a simple start, and this is a simple start.

Of course, the other important thing that this bill makes a contribution to is that it does away entirely with the argument that one State cannot afford to do it because another State will be in competition with it. This bill will make it for the State's interest and the employers in every State to establish a law within their States which makes it possible to keep that money within the State instead of going to the National Government.

Somebody before me spoke about State funds, putting this money into State funds, into a general fund—I think Mr. Flanders, my good friend here, whom I usually agree with. I think the argument against having a general fund is that the weak employer will benefit constantly by the strong employer. If there is any general contribution into a general fund, each man ought to stand upon his own feet, that is, each employer, and pay his own way.

I think I ought to say to your committee that I am not talking for my corporation. It just happens that I have been serving here for months now with Mr. Flanders on the Industrial Advisory Board and our board has not officially taken up this bill for consideration. I think I can say that my associates are in general approval of something that should be done, from our conversations from time to time on this subject.

They would probably have their own individual opinions as to whether this is the time or the rate is right or what not. We have not discussed that in our directorate, and I am not in position to speak for them.

I am chairman of the active management of the board of our business, and chairman, as I say, of the Federated Department Stores' Board of Directors, as well as being chairman of the directors of my business. My brother, whom I notice from the list of witnesses, seems to have appeared here, has spoken to you, but I am not quite sure what he has said. But if you find that he feels differently about it than I do, you will know that we have very friendly feelings, but very different opinions at times.

I think that is about all the contribution I want to make. If I have said anything which seems to call for disapproval on the part of the committee, I will answer any questions if I can.

One of the committee asked the question about the labor costs. It may interest you, if you do not know it, to learn that the Harvard Business Bureau gave out 18.7 as the ratio of pay roll to sales volume in the retail stores of the country.

Mr. LEWIS. Does that include salaries?

Mr. FILENE. This was pay roll. The figures which I quoted to you before were only the pay roll figures of the people involved in this bill. It does not include these big salaries which were listed as being received by the heads of the business.

To compare with this we have a recent report of the Massachusetts Department of Labor and Industry, giving statistics as to manufacturers in Massachusetts in 1932. This covers the principal industries and gives detailed information as to 18. The total amount of wages of these industries was 21.9 percent of the value of their products.

I thought, since the question was asked, that these figures might have some value.

Mr. LEWIS. We thank you very much for your time and your contribution, Mr. Filene.

Mr. FILENE. You are quite welcome.

Mr. LEWIS. Miss Dawson is here, and we would be glad to hear from her.

STATEMENT OF MISS MARY W. DEWSON, OF WASHINGTON, D.C., REPRESENTING DEMOCRATIC NATIONAL COMMITTEE

Miss DEWSON. My name is Mary Dewson, and I am director of the women's division of the Democratic National Committee. This begins as it should, in a slightly political way. I will make two quotations from the platform of the Democratic National Convention of 1932.

One: "We believe that a party platform is a covenant with the people to be faithfully kept by the party when entrusted with power."

Two: "We advocate unemployment and old age insurance under State laws."

In my opinion the Federal administration has a right to be proud of the steps it has taken to fulfill the promises of our party, especially under the stress and strain of the depression.

Why have not the State legislatures controlled by Democrats fulfilled in any State the one pledge made for State action? Some States it is true have enacted old age insurance laws but not one State has passed an unemployment insurance measure and the legislature of every State in the Union have been in session since 1932.

I believe the pledge was not kept because the industrialists of every State protested that if unemployment insurance was established in their State, they would be at a disadvantage in interstate competition.

This fear may or may not be well grounded. It is however a genuine obstacle to the passage of proper unemployment insurance legislation in the States.

The Wagner-Lewis bill would remove at one stroke the only argument against the immediate enactment of State unemployment insurance laws.

It would also refund to the Government some of the cost of carrying industrial workers during future periods of unemployment until business is ready to reemploy them.

If there is time I should like to state more in detail why I consider unemployment insurance so important. I have been interested in this legislation since the Huber bill was introduced in Wisconsin in the early twenties. I have been chairman of the labor standards committee of the National Consumers' League for a good many years.

The need for some just and adequate method of providing for the hardships of unemployment is now generally recognized. It has long been my belief that just as business has built up "reserves" for depreciation, taxes, and interest and even surpluses from which to pay dividends during slack periods, so business should be required by law to build up reserves to help carry the burden of unemployment, now chiefly borne by the workers. A large part of the cost of unemployment is borne by the taxpayers also, through the huge cost of relief entailed during periods of unemployment, such as we have known in acutest form during the past 4 years.

I have long believed that unemployment reserves or insurance should be required by law, since only a handful of employers have taken voluntary action along these lines.

The benefits of legislation setting up some system of compensating for unemployment are twofold. First of all, it will be prevention. Properly devised unemployment reserves law can stimulate management to provide steadier work, thus reducing to the minimum the irregularities of work and of production which exist today.

Under various proposals and under the Wisconsin Act, the rate of contribution by an employer is progressively reduced and may cease when his account shows a stated reserve per employee. He can be sure from the start of the full saving due to his better management. The incentive to regularize business is thus strongly reinforced.

On the other hand when management can lay off workers with impunity, irregularity of employment is often the easiest way out. Yet a considerable number of businesses in the country, large as well as small, have shown that efficient management can in large part determine regularity of operation by the intelligence with which orders are accepted or refused, plant capacity expanded, new customer habits created, and so forth.

Mr. Ernest G. Draper, himself an employer who is proving the possibilities of stabilization in industry, points out for a single instance that a highly competitive business like Procter & Gamble, which made a net profit of \$9,132,000 in 1932, has worked out an all-year around production schedule for a product like cottonseed oil, the use of which has never been regularized before. (The Survey, Jan. 15, 1934, p. 11.)

Furthermore, steadier employment in relatively normal times should gradually help to lessen if it cannot do away with, the recurring disasters of unemployment such as have taken place in 1907, 1921, and so forth.

Secondly, the provision of unemployment reserves or insurance will provide some measure of security for workers who are laid off from work, and will thus contribute to the purchasing power of the community.

It has been estimated that in New York State, for instance, if early in the depression a 2-percent contribution from all pay rolls in the State had been available from only a 2-year accumulation period, there would have been in hand 75 million dollars for distribution in benefits. Nor would this have been all. For with any proper system of unemployment insurance, a percentage of the pay roll of those still employed would have been added to the fund. There would thus have been in hand more than 75 million dollars early in the depression to maintain the purchasing power of the unemployed workers—a small but steady income for business, invaluable precisely at the time when a depression is setting in.

Not only would business have benefitted greatly but even more important, the morale and self-respect of the workers would not have been undermined as they have been during the 4 years of the depression by the fear of approaching insecurity, the humiliation of seeking relief and a standard of living reduced far below the American level by inadequate aid. Medical authorities are agreed that while the undernourishment and mental suffering of the unemployed, both children and adults, may not be reflected in statistics of mortality, the inroads upon health and vitality are already unmistakably evident.

From the point of view of the taxpayer also, unemployment insurance offers a legitimate and material source of aid. Instead of the millions spent in relief, both tax paid and through private charity, the more than 75 million dollars would have been available in the State of New York alone from the reserves of industry, a sum far greater than what was raised to help bear the burden of unemployment from private or public doles at that time. In a single city in the Middle West it is reported that taxpayers paid more than 8 million dollars in relief when 100,000 employees of a great manufacturer were laid off.

Granted that these objectives of unemployment insurance have been gradually recognized not only as desirable, but essential for the

United States, how shall the necessary legislation be carried through? In only one State, Wisconsin, has a beginning been made by the enactment of a statute which goes into effect this summer. During 1935, 30 legislatures will be in session. I believe that no device could be more effective or more reasonable, to stimulate State legislation than the provisions contained in the Wagner-Lewis bill. It leaves to the States the choice of various methods to be pursued, whether reserves shall be pooled or kept in separate company accounts, whether industry alone should contribute as being responsible for management, or whether the workers should also be called on; what the size of benefits should be, length of waiting period and many other points.

The essential thing, as all students of the subject agree, is that action should be taken now. When prosperity returns the need of providing for unemployment is far less readily seen. If the Wagner-Lewis bill is enacted at this session of Congress, it will be the most potent force to stimulate action by the States in 1935.

I want to say that I rather agree with Mr. Filene, that it is unfair to ask one employer, who has carefully stabilized his business with a great deal of thought and work, to bear an equal burden with the man who has been exceedingly careless about this matter. I am quite familiar with industry and I know there is a great variation in what is done in different industries, and I think that this gentleman here, this Congressman [indicating]—

Mr. LEWIS. Congressman Cochran of Pennsylvania.

Miss DEWSON. I think he need not fear that it will be unfair to the manufacturers because this 5 percent is equal all along the line, so that that is perfectly fair.

At the same time, I am particularly pleased with this bill because it permits the different States to experiment with the best form of unemployment-insurance legislation, and it also gives them that freedom for State action which I think is very desirable. So that although each manufacturer will pay the same, the States themselves can work out a plan by which, if they choose, their manufacturers who have made a great effort to stabilize their business will be in a better situation if they use the plan which is used in Wisconsin.

I should be very glad to have them have the chance to do that, but I am also glad to have them have the other plan, too.

Mr. LEWIS. Thank you very much, Miss Dewson.

Rev. Francis J. Haas is next.

**STATEMENT OF REV. FRANCIS J. HAAS, OF WASHINGTON, D.C.,
MEMBER OF THE NATIONAL LABOR BOARD OF THE NATIONAL
RECOVERY ADMINISTRATION**

Reverend HAAS. My name is Francis J. Haas, director of the National Catholic School of Social Service, member of the Labor Advisory Board, and member of the National Labor Board.

Mr. Chairman and members of the committee, there are four major reasons why this bill should become a law. One, it will be a beginning at least of recognition in law of the obligation of industry to pay every worker a year-round wage; two, it is Nation-wide in scope and effect; three, it is compulsory and uses the most effective kind of compulsion; and four, it is a necessary preparation for whatever course the Government sees fit to follow after the expiration of N.R.A. in June 1935.

First, we should recognize the fact that lasting prosperity will be a reality only when every industrious worker is paid an adequate year-round wage. Frankly, this means that every worker should be raised to the salaried class in the sense that he will be guaranteed a definite income each year. At present, even under N.R.A., wages are fixed at either an hourly or a weekly rate, and the worker is paid for only the time he is kept at work. To illustrate: A cotton-textile operative in the North must be paid \$13 per week, but the employer who keeps him at work only 45 weeks in the 52 must pay him only \$585 for the entire year.

Thus, even in view of all that N.R.A. has accomplished there is still a long way to go. Society does a grave wrong both to the wage earner and to itself by allowing the hourly- and weekly-rate system, unsupplemented by out-of-work benefits, to continue. Surely, the cotton-textile operative with \$585 at the end of 12 months did not, during that time, feed, clothe, and house his family properly. He and his dependents were the victims of a system. Just as surely, society at the end of the 12 months' period was the loser. It did not get sufficient buying activity from the man who received \$585 and, consequently, he helped to keep others out of work. They in turn did the same to others. The net result was that in literally millions of families, the Government had to pay out public tax money to make up the difference between annual necessities and annual earnings.

Now, the bill before you takes it for granted that the worker has a right to compensation for time he is actually not at work. True, the compensation is very little. The minimum benefit of \$70 per year is a paltry sum. But, in my opinion, the bill is epoch-making because it is a beginning. If it becomes a statute, for the first time in our industrial history, we shall have written into law that industry has an obligation to take care of its labor when involuntarily idle in the same way that it is obliged to take care of the owners of securities when plants are closed. The details of the bill are not important. The basic principle is all-important.

I may be asked: "How do you justify the payment of wages to men when they are not working?" "Is this not economically unsound?" My answer is: "No; on the contrary, from the standpoint of current business practice alone, it is highly sound."

When an automobile manufacturer buys raw materials, for example, upholstery, he buys only what he thinks he needs. But does he pay for only what he actually buys? By no means. He pays for what he buys and in addition, his share of the cost of all the upholstery which was not bought but was produced during the season for the automobile industry. In a word, he pays his share of the cost of the unused, unbought upholstery offered each season in the market to automobile manufacturers. The same holds for leather, glass, paint, accessories, and all raw materials.

No employer can escape paying his share of the cost of the unused residuum of raw materials. He should not be allowed to do any different with his laboring force. In hundreds of cities during the past 5 years employers have simply turned their unemployed workers over to the community for support. This is a grave injustice both to the workers and to the community.

The economic effects are equally clear. The uncompensated unemployed cannot buy. Increased unemployment is the result. Unem-

ployment breeds unemployment, and reduced buying power reduces buying power still further. In a well-planned economy, the downward spiral will be stopped and proper balance between buying and producing will be maintained by a guaranteed year-round wage. This is what the bill before you seeks in a modest way ultimately to accomplish.

Second, the present bill is admirably conceived because it attacks the evil of unemployment from the standpoint of the Nation as a whole. Actually, it disregards political boundaries of States because unemployment disregards them.

In the past, perhaps there was some merit in the argument that if a State acting alone set up a compulsory unemployment-benefit system, it would thereby penalize itself by encouraging industries to move elsewhere. Also, there was something to be said for the argument that such a State would, by attracting outside workers to its industrial centers, increase the number of job seekers and defeat the purpose of the law. Whatever weight these arguments had or did not have, the fact is they were powerful forces in blocking necessary legislation.

It should be recalled, however, that employers have frequently gone on record as saying that they would not oppose unemployment-insurance legislation in their States if they were only given assurance of protection against competition from outside. The present bill takes these employers at their word. It will remove destructive interstate competition and, so far as possible, establish national minimum standards. These standards, carefully specified in the bill, can, and should, as time goes on, be moved upward.

Third, the bill uses compulsion but a compulsion of a very effective character. The opposite of compulsory-unemployment compensation is, of course, the voluntary type, that which employers create on their own initiative. Surely, it would be better if management would voluntarily assume the burden of unemployment instead of having Government compel it to do so.

But what are the facts? In competitive industries the enlightened employer is not able to carry the burden. He must sell his products in a market and the lowest-cost producer can outbid him and perhaps drive him from the field.

In noncompetitive industries, the employer simply does not assume the burden. It is well known that the number of wage earners in the United States covered by voluntary unemployment schemes was, in 1933, almost zero, less than two thirds of 1 percent of all wage earners. I recall in 1923, 6 years before the collapse of 1929, how Wisconsin manufacturers testifying at public hearings against proposed unemployment-compensation legislation, begged for time to establish their own plans. "Give us another chance," they said, and "we will do this thing ourselves, but don't pass this law." And yet they went through 6 years of unparalleled business activity and profit and did exactly nothing.

There can be no serious debate on the question of compulsory versus voluntary unemployment compensation. The voluntary scheme is simply not set up. All that remains is legal compulsion.

Now, the peculiar merit of the present bill is that it does not set out to do the impossible. It sets out to do something that has an excellent chance of being done. Its excise feature will unquestion-

ably enlist the opposition on the side of the law. It will make local employers more receptive than they are now to the rightness of unemployment compensation and instead of opposing, they will support the legislation. It is entirely reasonable to assume that employers would rather pay unemployment premiums which would remain in the State than pay the equivalent in the form of taxes to the Federal Treasury.

Fourth, the bill is a necessary preparation for whatever condition follows N.R.A. in June 1935. At that time, the plan of regulating each industry on an industry-wide basis will be either continued or discontinued.

If it is continued, the present bill, if enacted into law, will be a powerful support for the code system. It will be an important and, I dare say, necessary aid in getting unemployment compensation written into codes, where in my opinion, unemployment compensation and the guaranteed yearly wage should be.

Moreover, it will assist, as no measure so far proposed can assist, in meeting the difficult problems of administration. From the standpoint of administration, unemployment compensation is essentially a local matter. It calls for local and State offices for registration and payment of benefits. In this respect, State legislation and State administrative agencies are all important. The bill before you meets this need admirably.

On the other hand, if the code process is abandoned in 1935, the reasons for enacting this bill now are multiplied many times over. In the absence of regulation now effected by N.R.A., the need of social legislation will be extremely acute. If in 1935 we decide to discontinue N.R.A. control, we must be ready to put in its place an elaborate system not only of unemployment compensation, but also minimum-wage and maximum-hour laws. The evils of unchecked individualism accumulating for over a generation dictate the absolute necessity of control. In either case, whether N.R.A. is continued or not, the present bill should be made law.

For these reasons, I am happy to add my endorsement to the present bill and express the urgent hope that it will be enacted into law.

Mr. LEWIS. Mr. Reed, have you any questions?

Mr. REED. No, sir.

Mr. LEWIS. Thank you, Doctor.

We will adjourn until tomorrow morning at 10 o'clock, in room 1501.

(The subcommittee thereupon adjourned until tomorrow morning at 10 o'clock.)

UNEMPLOYMENT INSURANCE

THURSDAY, MARCH 29, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. David J. Lewis (chairman) presiding.

Mr. LEWIS. The first witness on our list this morning is Mr. Ernest Draper, of New York.

Will you give the reporter your name and address, and state your relation to the subject under discussion?

STATEMENT OF ERNEST G. DRAPER, VICE PRESIDENT, HILLS BROS. CO., NEW YORK, N.Y.

Mr. DRAPER. My name is Ernest G. Draper; I am vice president of Hills Bros. Co., New York City.

Mr. LEWIS. Will you state your relations to this subject matter?

Mr. DRAPER. My relation to this particular subject is that I have been a student of it for about 20 years.

We have adopted in our company certain plans for regularizing our production with the hope of cutting down seasonal unemployment. Over a period of 10 years we have been reasonably successful, even during the last great depression.

I have also at one time been president of the American Association for Labor Legislation, which is interested in problems of this character, and have made a study of the problem while connected with them, as well as before and after. I am also a member of the National Labor Board.

Mr. LEWIS. You may proceed with your statement.

Mr. DRAPER. Mr. Chairman and gentlemen of the committee: General adoption by the States of systems of unemployment compensation will give this country a more efficient, more adequate and more equitable method of providing for the unemployed worker. Unemployment compensation will serve also to relieve the taxpayer because it will make compensation for unemployment a cost of production entering into the price of the product just as the cost of accident compensation now does under existing workmen's accident compensation laws. Moreover, like accident compensation which has stimulated the movement to prevent accidents, unemployment compensation will help to focus the attention of management—in good times as well as in bad—upon the problems of providing steadier employment.

UNEMPLOYMENT INSURANCE

Through the National Industrial Recovery Act Congress has inaugurated a program to eliminate destructive business competition which hinders business recovery. By the enactment of the Lewis bill, H.R. 7659, it should, I believe, likewise remove the obstacle of "interstate competition" which now serves to hinder the adoption of constructive State legislation for permanent systematic provision against unemployment.

I believe that Representative Lewis' bill to encourage the general adoption of State unemployment compensation legislation should be enacted at this session of Congress. Sound and practical measures for State legislation, based upon careful official investigations by the leading States and by the United States Senate, are ready for early enactment at the State capitols. It is highly important that these measures be put into effect at the earliest possible moment so that employers will have an opportunity to make the necessary adjustments during the period of expanding employment. Enactment of the Lewis bill at this session will provide opportunity for prompt action by most of the States in 1935. It would be most unfortunate if Congress, by postponing enactment of the Lewis bill, should cause the adoption of unemployment compensation legislation to be postponed in a majority of the States until their legislatures meet again in 1937.

Mr. LEWIS. Is it your view that the separate States are going to be unwilling to initiate legislation, to impose these special burdens on their own industrialists, without a proper assurance that like burdens are going to be laid upon their competitors, in whatever State they may be?

Mr. DRAPER. Yes; I think that is exactly so.

Mr. LEWIS. In other words, it is a national community problem, and the legislation, even if not nominally national in character, must be uniform in its effects.

Mr. DRAPER. I think that is exactly the reason why we have not had great progress with unemployment compensation, the feeling that a man, for instance, in the State of Connecticut will be discriminated against if Connecticut has such a law and New York State does not have such a law.

Mr. LEWIS. You may proceed with your statement.

Mr. DRAPER. I have been thinking about this for a long time, Mr. Chairman, and am very much interested in it.

I noticed, in reading about the present discussion, that it seems there are three or four main objections, and I am wondering if I could not touch on them for a moment.

Mr. LEWIS. Before you do that, will you tell us of the experience of the Hills Bros. Co. in regularizing their work.

Mr. DRAPER. I have told that story so often that it is pretty well moth-eaten by now.

Of course, the plan has been dented, but not destroyed by the depression. We are a company which, for the most part packs dates and other food products, with our main plant in Brooklyn, N.Y. We also have canning plants in Florida, and operations in Mesopotamia and elsewhere abroad. They do not come under our plan of regularization.

Some years ago we conceived the idea of trying to lengthen the season for the production of dates over a 12-month period, instead

of having it correspond with the selling period, which is really over a 4-month period.

In other words, the dates are brought over late in the fall, and we have to hold them until the following fall. Most dates are sold during September, October, November, and December, with that long period of holding them from 1 year's crop to another.

In the old days we used to hold them in warehouses, and the minute the weather began to get a little cold we would rush them through, bringing about a large amount of speed and the wastefulness that goes with speed, and also some inferiority in quality.

So we finally devised a scheme of storing the dates under certain temperatures, and so on, whereby we pack them at more or less of a uniform rate, from January right through until December.

That would make our production curve more or less level throughout the year, whereas the sales curve right after the first of January would slump way down and stay down there until September, and then go up very high through September, October, November, and December.

We have had our plan in effect for about 11 years, with certain minor objections to it. It has worked, I would say, most successfully. Even in the very severe depression years of 1932 and 1933 we reduced our working hours from an average of 54 to an average of 40.

Mr. LEWIS. In your company, then, there was not a great reduction in the number of employees?

Mr. DRAPER. Not a tremendous reduction in the number of employees, no. They work less hours, and of course they got less pay. There is no question about that.

We could not afford to take the full effects of the depression because our sales slumped.

Mr. LEWIS. During predepression days, when you introduced your regularization, was there any violent reduction in the number of employees?

Mr. DRAPER. Oh, no. The point there was this—

Mr. LEWIS (interposing). I mean during high production times.

Mr. DRAPER. The point there was this, that in the old days we would hire about 200 employees for 8 months of the year, and about a thousand employees for the last 4 months of the year. Then on the 1st of January we would fire about 800 employees.

When we put into effect the regularization plan, we hired 200 employees until about the 1st of March, and then we jumped the number to about 600 employees, between 600 and 700, and then from that time on kept approximately that number right through the year.

When the slump came, these 600 employees slumped to—I do not like to talk figures without the figures on hand, but I should say about 500 employees, some figure around there, or possibly a few less.

Now, then, there is not any use generalizing on this subject simply from the experience of one little company. Also, it would be absurd to say that these methods can offset the full effects of what happens in a depression. Such claims as those would be ridiculous.

On the other hand, I think our experience has shown that to some extent, and to a very real extent, unemployment is a preventable disease.

Mr. LEWIS. That is, chronic unemployment.

Mr. DRAPER. Chronic unemployment; yes. I approve of that word very much.

Mr. LEWIS. I think that describes your thought.

Mr. DRAPER. Yes; exactly. It is a preventable disease of industry, and managers of industry can have an effect upon its volume, within certain limits.

Mr. COCHRAN. In your business, what has been the fluctuation in the volume of new business, during the depression?

Mr. DRAPER. The volume of new business during the depression has been pretty nearly nil. Our sales have slumped, off-hand, I would say, about 35 percent, from 1930 to December 1933.

Beginning in December 1933 there has been a very decided push up in sales, largely, I think, as a result of the measures that the Government has put into effect, to uphold consuming and purchasing power.

Mr. COCHRAN. What percentage would you say was the pick up in December 1933?

Mr. DRAPER. The pick up in December was for that month, over the same month a year ago, approximately 20 percent. And it has continued from December right up to the present time in a most amazing and encouraging way.

There again, it seems to me, is an argument in favor of payments for unemployment compensation, payment to workers, in that the consuming power of the workers is to a great extent upheld by payments to them in off times, while they are laid off. And I believe that has an effect upon the consuming power of the whole country.

For instance, I think that the money put into the hands of workers recently by the United States Government has unquestionably had a very definite effect upon all consuming goods industries. That is exactly what this bill is designed to do, as I understand it. It is designed to help overcome the awful ravages of unemployment when men are laid off in large volume.

Mr. COCHRAN. You, of course, advocate the passage of this bill?

Mr. DRAPER. Most enthusiastically.

Mr. COCHRAN. I want to ask you another question. It has not come to me, really, from your statement here. This bill seeks to provide unemployment benefits for the large group of people that produce goods.

Now, we have other groups that are vitally affected by unemployment—groups that render services.

The statement is made that today 3,000 doctors are driving taxicabs in New York City. Should some measure of relief be afforded such a group as that?

Mr. DRAPER. That is a difficult question for me to answer, because what reading and study I have given to the subject has been mostly in connection with workers in industry.

Mr. LEWIS. There is no pay roll there.

Mr. DRAPER. There is no pay roll, and there is no way—

Mr. LEWIS (interposing). There is no one to pay taxes.

Mr. DRAPER. No; and there is no way to check that through some sort of a central management organization.

Mr. LEWIS. I may say to the gentleman from Pennsylvania (Mr. Cochran) that I had that problem to consider in a much more fundamental and radical treatment of this whole subject, and found

that the employer-employee relation seemed to be absolutely essential, if governmental institutional treatments were to be applied. In other words, the doctor is still an individualist, and the lawyer is an individualist. I shall insert an analysis of the treatment referred to (H.R. 5232) in connection with Mr. Andrews' summaries of the State bills.

Mr. COCHRAN. I appreciate that, but at the same time those groups—

Mr. DRAPER (interposing). Are human beings.

Mr. COCHRAN. Yes, and they are the victims of the hardest part of a depression.

Mr. DRAPER. There is no question about that.

Mr. COCHRAN. In the present depression doctors, dentists, lawyers, and ministers have suffered.

Mr. DRAPER. Oh, yes.

Mr. COCHRAN. And have not received as much as sympathy.

Mr. DRAPER. That is absolutely true.

Mr. LEWIS. The suggestion occurs to me that the clergymen in the different church organizations do have their societies, principally those in which they take care of the ministers in their old age. Doctors, perhaps, might find fraternal organizations to be a method of treatment of this subject. Of course, the human argument is equally strong wherever a human being suffers.

Mr. DRAPER. There is one possible objection to this bill, in my mind, Mr. Chairman, and it is an objection which could easily be remedied. That is the question of the 5 percent tax.

I must say, as a member of industry, I have seen the efforts of many companies and many men, including our own company, to try to regain their feet. Five percent would appear to me to be somewhat too high.

I would think that figure could easily be somewhere between 2 and 3 percent, and that, even with a tax of 2 or 3 percent, a tremendous amount of good could be done in making payments to workers, and still have the burden on industry to be somewhat lightened just at this time, when so many of us are trying to beat back to normal times.

That has nothing to do with the principle of the bill, but is merely a suggestion as a result of my observation and study.

Mr. LEWIS. Have you had time to go into the statistics of the subject enough to have an opinion as to whether, say, a 3-percent tax would be adequate to raise the necessary reserves to meet this chronic disemployment at the time when the benefits provided by the act are to be come available?

Mr. DRAPER. I have. I heard of a study of that matter several years ago by Dr. Leo Wolman, whom you all know. It was in connection with what would have happened in New York State if such a bill had been in effect for 5 years previous to the very drastic depression. As I remember it, he worked it out on a basis of 3 percent.

The result of it was, I believe, that something like \$60,000,000 would have been available to the workers of New York State, when, as a matter of fact, during the year in which we were then talking, I believe only about \$25,000,000 had been available to these workers. In other words, their lot would have been almost three times as well

off, and I want to reiterate and say that the lot of the community would have been almost three times as well off, because that would have provided so much more consuming power.

I hope we will not get away from the argument, which I believe is very powerful, that for the most part this money does not stay in the hands of the workers very long; it cannot, because they have to spend most of it in order to live. Therefore, this fund is gradually seeping through the channels of trade, and really helping every one.

Mr. LEWIS. That is to say, it goes to consumable goods entirely.

Mr. DRAPER. Exactly, that is the effect.

But nevertheless, it has a steadying effect, a cushioning effect all along the line.

I would like to make one other statement, if I may. It has been suggested by many people who have been thoughtful about this problem—and I am very sure that they are sincere—that the States should have more time to decide what form of insurance each State desires.

But, Mr. Chairman and gentlemen, with all due respect to these persons, I must say I am not very much in sympathy with that argument: We have been studying this problem off and on for something like 25 years, and it seems to me there is a body of material all prepared, and a body of evidence all worked out, which is available to every State, and that therefore it would be a perfectly easy proposition for each State to study this problem right now, so we could get some action without delay. So often, even with all these studies that have been made, the reply is, we want more time to study it. Then the depression goes by and the whole matter is forgotten.

This has been so for the last 20 years, and I am afraid it will continue to be so for another 20 years if we do not really crystalize our thought and get some action.

I would urge that the matter not be postponed any longer, but that we bring it to a head in the hope that we can get some definite action before the next depression is on us.

Mr. LEWIS. We thank you very much, Mr. Draper.

The next witness this morning is Mr. Hart, of New York. Will you please give the reporter your full name, your address, and your relation to the subject matter under discussion?

STATEMENT OF MERWIN K. HART, NEW YORK, N.Y., PRESIDENT NEW YORK STATE ECONOMIC COUNCIL

Mr. HART. My name is Merwin K. Hart, of New York City, and I am president of the New York State Economic Council.

Mr. Chairman, I have prepared a statement of three or four pages in length, which, with the approval of the committee, I will follow rather closely, and then be very glad to try to answer any questions you may have to ask me.

Let me say first, Mr. Chairman, that the New York State Economic Council is an organization of members throughout the State of New York. We have members in every county, and our object is to improve economic conditions. Our object is to stimulate employment, believing that if that can be done all of the other benefits we desire will flow from it.

One of our principal objects is to reduce the cost of government, and hence to reduce taxes, but we are keenly interested in every provision we believe will help improve economic conditions throughout the State.

We object to this bill you are now considering, Mr. Chairman, and we urge the committee that it should not be reported to the House and should not be passed, for the following reasons:

It will lay an additional burden on employers at a time when a great majority of them are struggling to bear their present burdens and to keep going.

It is our belief that a majority of employers, probably a large majority of them, have been running in the red on their current operations for some time, and still are. Many of them have dipped heavily into accumulated surpluses; some of them have wiped out their surpluses and have been dipping into their capital.

Some weeks ago a man came to see me in New York, an employing printer who had had a successful business for 20 years. He had reached the point where he told me he did not know how he could keep on more than 60 days longer.

He employed a relatively small number of employees, a dozen or 15. He mentioned the fact to me that the wages of some of them, I forget how many, were about \$60 per week.

He told me that he himself, after having used up his life insurance, and making other arrangements to cash in on whatever he could in order to keep the business going and to keep his men employed, had been able during the year 1933 to draw out an average of only slightly over \$13 a week for himself and his family to live on.

What employees of that kind of employers need, Mr. Chairman—and I submit that illustration may be multiplied by literally hundreds of thousands—what the employees of employers of that kind need is not such a measure as this, which would require large burdens on their employers; they need to have the burdens removed from their employers, so that those employers may get on their feet and go on to higher and better economic conditions.

The greatest assurance to the employee of good wages and of proper working conditions is for the employer's business to be reasonably prosperous.

I have listened with much interest, Mr. Chairman, to the testimony of the gentleman who preceded me, and I dare say that any company that can face the prospect of an additional tax at this time is able to do so.

I am here today to speak for the man who cannot stand this expense. It is true that the vast majority of employers cannot stand any additional taxes, and if they have to do so many of them will be going out of business altogether, with the result that more and more people will become unemployed.

In the second place, Mr. Chairman, this is one of a number of movements designed to give greater security to the working people. Security is, of course, desirable as an abstract proposition.

But as a practical matter, not even the Government can guarantee security to all the people; because the only way by which the Government can get the means wherewith security can be guaranteed is from the people themselves, or from some of them.

Such a bill as this tends to make many people feel a greater reliance on the Government. What is needed to bring us out of this depression is for the greatest possible number of people to know fully that their best reliance is still on themselves.

In the third place, Mr. Chairman, two unemployment insurance proposals now before the legislature of my own State of New York would place the present unemployment benefits at not exceeding \$240 per year, in most cases less. That amount, Mr. Chairman, is not enough to last any man with a family more than a few weeks at best.

Most persons show by their savings-bank deposits that they are able by themselves to make savings of at least this amount, if they are able to have employment at all.

Such an amount would be wholly inadequate, however, for such a depression as the present one. It would be impossible for most of the smaller business concerns today to pay their employees enough to set up the reserves called for by these rather relatively moderate New York bills. It would be entirely impossible for them to set aside enough for a really adequate reserve.

I happen to be interested in a small business concern employing a few hundred people, which has been carrying on for years, paying no dividends whatever to its stockholders, either preferred or common, but all the time giving employment. But I happen to know that at the present time the management of this company is still confident they can carry it through, and while that confidence is being maintained, that company, I repeat, is continuing to give employment to some hundreds of people. But they are still confident they can carry it through. And yet, they have been in the position where, to increase substantially the burden they have to bear, such as this would do, might be enough to put that company out of business and to make unemployed those hundreds of people now receiving employment.

I have in mind a concern in the State of New York about which I know something, which has been carrying on for some years past paying no dividends, but paying wages, carrying on solely because their employees to the number again of some hundreds have been with them in most cases more than 10 years, and in many cases more than 20 years. And in order to carry them on, the officers of both of those concerns have been for some years past drawing no salaries whatsoever. They are not, moreover, alone among employers in the United States by any means.

In the past 2 years, Mr. Chairman, savings bank deposits in the United States have been reduced, I understand, about 25 or 28 percent. The surplus of many employers, corporations and individuals has been reduced through paying wages while making no money, or actually losing money.

As a matter of fact, we have today, I maintain, Mr. Chairman, widespread unemployment insurance in the United States in these large corporate surpluses of employers upon which we have been drawing to pay wages during the depression, and this is one of the great reasons why they have been accumulated, to bridge over these depressions which always have happened in the past, and which perhaps will always happen to a greater or less extent in the future.

Much is said in the headlines of the newspapers about the unemployed, and deservedly; but not enough is said about the employers who have kept their men and women workers on, even though they have been for a long time deep in the red themselves.

Our last objection, on principle, to this bill, Mr. Chairman, is that it is an attempt to foist action on the States in a matter with respect to which, apparently, the Federal Government is unable under the Constitution to act directly itself.

Mr. LEWIS. That is not admitted on my part, sir.

Mr. HART. I am not a constitutional lawyer, Mr. Chairman, although I practiced law for a number of years some time ago.

The CHAIRMAN. You could easily get the reputation of being one, Mr. Hart, by reading the Constitution for a few hours and then talking thereon for days.

Mr. HART. That I am refraining from doing, Mr. Chairman.

In view of the detailed conditions for credit allowances set forth in section 3 of this bill, the bill is tantamount to an attempt by the Federal Congress to write the laws of the various States. If the Federal Government can thus, in effect, write a State law in this matter, it is difficult to see why it cannot write State laws in other matters. Presently there would be little further need of our State legislatures. The spirit of the Constitution would have been violated.

I have some other brief comments I would like to make, Mr. Chairman.

Mr. LEWIS. Your suggestion as to the imposition of this tax, say if it were 5 percent, is that it would amount to a 5 percent increase in wages, where applied?

Mr. HART. Except as it was reduced by the credit allowance.

Mr. LEWIS. And that a number of employers are in such a situation that they could not make that increase in the form of a wage increase. But if the burden is made equally applicable to all, would it not go into the price?

Mr. HART. Mr. Chairman, in time that would be the result; and yet, if we were to treat all of the people in the United States in the same way, by the time we had finished treating them all in the same way and had raised up the wages of all --and you have likened this to the raising of wages --we would be where we started from in the beginning.

This bill does not apply to agricultural employees. I presume that exception is made to favor the farmers.

Mr. LEWIS. No, I think it is made on the same basis as for the doctors, and for the same reason that the doctors, of whom Congressman Cochran has spoken, are not included. Some individualism still remains on the farm.

Now, just another suggestion with regard to the situation of the person who would have this tax to meet.

The coal-mining industry, with which I happen to be familiar from experience, until this recent coal-cartel organization, was running in the red, that is, the bituminous-coal industry, from about 1920 on.

If workmen's accident compensation had been delayed in the coal-mining States until 1920, the coal operators would have made the same argument that is being made here.

I do not know the figures completely, but some figures I have recently seen indicate that about 3 percent of their costs go to workmen's accident compensation debts.

And yet there are perhaps no employers anywhere who would not repulse you with disgust if you now proposed that no compensation shall go to the victims of accidents.

The employers of the United States to whom this bill would be applied, while doubtless, in some cases fallen into insolvency are by no means in the situation in which the coal mines were before the N.R.A. movement.

Mr. HART. Mr. Chairman, of course, workmen's compensation laws were not a wholly new thing. They took the place of the old employers' liability, and that law cost the employers a pretty substantial sum.

Mr. COCHRAN. Right there, let me ask you this question: Have you any statistics to show the relation between the cost to employers under their former liability for negligence and the cost to employers under workmen's compensation liability?

Mr. HART. I have no such data here; I did not come prepared to discuss that, of course. We are getting a little bit aside from the subject. I have no such figures.

Mr. LEWIS. Speaking from my own experience in coal mining, which extended to some 14 years in the mines, and then some 20 years of law practice following my mining experience, I can recall only one case in which a liability for delinquency on the part of the employer could be fairly attributed to him. The accidents were truly accidents and no one was morally to blame.

Employers' liability, it is true, cost the employers heavily at times because of the wars that had to be conducted through the courts, but this cost to the employer bore no relation to the miserably small proportion that went to the victim himself.

Mr. HART. There is no question about that, Mr. Lewis. But I was speaking of the burden on the employer.

But if I might say a word more about agricultural employees. We all believe that in the last analysis the farmers will pay a large part of the cost of this bill.

Mr. LEWIS. In the price?

Mr. HART. In the price.

Mr. LEWIS. If they pay it, the employer is not paying it. I am not meaning to give you a smart answer, Mr. Hart.

Mr. HART. In the first instance you said you believed it would be absorbed in the price. If it is, and if the estimate I have seen put on the yield from this 5-percent tax of a billion dollars is correct, it would seem to me, even after the deduction of the allowable credits, the farmer, to whom this does not apply, is going, through the prices he pays for the manufactured goods he consumes, to pay a very large part of the cost of this bill.

The Government is trying to add to the income of the farmers by increasing the prices of what the farmer produces. This bill would tend to offset that by increasing the cost, as other measures proposed have done, of the things for which he must pay.

Mr. Chairman, I have two or three more points which I would like to present.

This bill will lead to an increase in bureaucracy in order to administer the act. There would have to be a great host of field representatives to check up the laws of 48 States, and to insure compliance with those laws.

Yesterday, Mr. Chairman, the New York State Legislature, for the fourth time, defeated the economy bill for New York City. The chairman of the school board of New York City, Mr. Ryan, yesterday stated that if something were not done to bring relief in the city of New York, New York City would close a substantial number of its schools.

At the present time it is openly stated that there are \$250,000,000 of taxes in arrears in the city of New York, more than one half of all of the tax burden of the city of New York.

Mr. LEWIS. How much?

Mr. HART. \$250,000,000, or more than one half of the tax levy for the current year. And that is growing.

In the adjoining county of Westchester, until very recently—I do not know whether it has been corrected—the city of Yonkers had had no money with which to pay its employees for some months past.

In other words, I just point out, in passing, that in the State of New York, supposedly one of the richest States in the Union, that is the condition we are facing at the present time. And the thing that has stood in the way of the economy bill in New York State, it is openly admitted and stated in an editorial in the New York Times this morning, is the existence of that organized bureaucracy. What will there be to prevent the additional public employees added by this bill from organizing in the same way to stand against the interests of the taxpayers of the country?

The bill, as it is at the present time, would include employer organizations not operating for profit, of which there are a great many, such as civic organizations of various kinds.

I protest, Mr. Chairman, against the prohibition in the bill against any employer directly or indirectly insuring his liability to pay compensation in any private insurance company. One of the most successful and one of the most useful types of private business in this country is the business of insurance. We have insurance companies in this country that cover the whole country, and, in fact, practically the whole world. There are many tens of thousands of people engaged in the insurance business.

Why strike in a statute at the right of an employer, if he decides that it is for his own interest, to have his insurance in private companies?

You do not have in the bill, Mr. Chairman, any objection to self insurance, and I submit, equally, there should be no objection to insurance in private companies.

Lastly, Mr. Chairman, I submit this, with as much earnestness as I can, that we oppose the principle, especially at this time, of taxing employers for giving employment. That is what this bill does.

There is probably no greater need at the present time than for opportunity of employment. Through a long period in our country both law and public opinion reflected the universal approval and the good will felt toward those capable of giving employment to men and women who needed jobs. Yet, the imposition of this tax would be a complete reversal of that attitude. It would indicate either that employment is held undesirable and should be discouraged, or else it could properly be considered as an attempt to penalize unemployment.

In conclusion, Mr. Chairman, I want to say I believe that this bill might, if enacted, tend to hold back the recovery that I believe is under way at the present time.

I believe there are several million employers, large and small, in this country who can be depended upon in their own self-interest to hasten recovery, and I urge very strongly, on behalf of my organization, that this bill be not passed, for the reasons I have stated.

(Thereupon, the committee took a recess until 8 p.m., the same day.)

EVENING SESSION

The subcommittee reconvened pursuant to the taking of the recess, Hon. David J. Lewis presiding.

Mr. LEWIS. The subcommittee on unemployment insurance will now resume its session. Is Mr. Willard, of Worcester, Mass., here?

Mr. WILLARD. Yes, sir.

Mr. LEWIS. Will you take the stand and please state your residence and your relation to this subject, Mr. Willard?

STATEMENT OF FRANK H. WILLARD, WORCESTER, MASS., PRESIDENT, GRATON & KNIGHT MANUFACTURING CO.

Mr. WILLARD. Frank H. Willard; president, Graton & Knight Manufacturing Co., Worcester, Mass.; also a member of the executive committee of the Associated Industries of Massachusetts, and past president of the same.

Mr. LEWIS. Now you may proceed, Mr. Willard.

Mr. WILLARD. I am appearing in opposition to the Wagner-Lewis bill, H.R. 7659, entitled "Unemployment insurance". It proposes to levy an excise tax upon employers and for other purposes. What other purposes does not seem to be indicated and it is rather vague. I do not understand it myself.

There is no statement of how the income from this tax is to be used—whether it is to be used for the relief of unemployed, public relief, or river and harbor bills, or whatever it may be used for. Apparently industry is being assessed for an amount of money here which is not tagged and, therefore, is subject to any disposition that may be established for it at some future period.

Ostensibly the intention of the bill is to force State governments to pass laws that will establish reserves which may be used for the relief of the unemployed in times of depression. At least, that is what I understand the intention of it to be. It seems to me it is not necessary, because there is already a wide-spread interest in many States for proposed laws being written and there are many different laws being proposed at the present time in various States, such as Massachusetts, Ohio, and, of course, Wisconsin has theirs. I believe our association has a record of some 15 States that are interested in this subject already.

This bill adds to the already excessive load which industry is required to carry through various rules and regulations of the N.R.A., of which I approve. I think that has been a very good thing. But, notwithstanding that fact, it is an added load for industry. It increases the cost of production, absorbs much needed working capital which has been badly depleted or, perhaps, entirely obliterated during the past 4 years, and it is likely to be the last straw that will put many of the marginal companies out of business, especially where labor is the major part of the cost of production. These companies are

struggling; they do not know just where they are going to get off, what they are going to do and how they are going to carry on, and there is any quantity of cases where the working capital has been entirely consumed to keep old and valued employees working to a greater or less extent and to enable them to support families, and this has been done with the very best of intentions to share work and spread employment and help men retain their self-respect. But it is a fact that it has in many cases left the employer in a very precarious position so far as the position of his business is concerned.

Some of the small units of industry have no bank credit, partly because the banks have been closed—rightly so, undoubtedly, in many cases; but, at the same time, closed, and part of these people's capital is tied up in the closed banks where they cannot get it out, and some of them have even had no bank credit, but carried on their business from week to week and month to month, providing employment for a considerable number of people, and running a business which netted the employer some reasonable income—not large, by any means; but, at the same time, he undertook and furnished employment in his geographical location. Today they are at their wits ends and do not know just what to do next, and many of them are closing up and they and their employees also will join the army of unemployed. They are numerous and they employ many workmen in the aggregate.

The bill, to my mind, tends to consolidate industry into larger units through the elimination of the smaller units. These larger units are concentrated in the larger centers of population and this eliminates the very desirable and economic small unit in the rural districts, where it is much needed for the employment of those who need work outside of their agricultural or other interests. So that, to that extent, it does not promote the intentions of the National Industrial Recovery Act.

It tends to retard the increase of pay rolls, because of the absorption of this amount of money for taxation purposes; it retards the increase of employment also. It is a permanent tax, with no limit, regardless of economic conditions in general or of the individual company. In other words, it may be the last straw, as I said before, that puts this company over the line into bankruptcy.

That is what I have to say in regard to this particular bill. I think the tax is excessive, more than it should be by any means, and I do not think it should be reported to Congress or passed.

Now I do not wish to have it understood that I am definitely set against unemployment insurance, if it is properly set up, and we have under consideration in Massachusetts at the present time what is known as the King bill. This bill provides for conditions which I think are much superior to many that have been developed in regard to this proposed Federal law, and I hardly think it would be possible to operate a Federal law under such conditions as are proposed. I do think, if we are to have unemployment insurance, that a State proposition is much better than a Federal law.

Mr. LEWIS. May I ask whether the King proposition would be permissible under the provisions of this bill?

Mr. WILLARD. I am quite sure it could. It is not exactly permissible today, but I think before it is passed it is likely to fall in line with the requirements of this bill. I have some comments to make

on it here, which I think will be of interest to you and one of them is that it provides a definite limit of liability, in that it requires a 2-percent contribution from each employer for each employee, up to the time when there is an accumulation of \$50 per employee in this fund. After it reaches \$50 and from there up to a maximum of \$75, the employer may contribute 1 percent for every employee. If at any time there are withdrawals from the fund, when it reduces the fund to \$40 per employee, the employer must then again begin to pay 2 percent, and then 1 percent, until the fund is recouped to its original maximum sum.

Now, these funds are retained by the State under suitable control of the State comptroller and the State treasurer, and the supervisor of the industry and labor board of the State, and they are maintained as a fund applicable to the unemployment of the individual employer who contributes the funds. His employees and no others can benefit from them—therefore giving an opportunity for an employer who plans the operation of his plant in such a manner as to create the least amount of unemployment, or to stabilize his employment—an opportunity to benefit from the efforts which he puts forth for that purpose.

It requires naturally an effort to carry on production through slack periods and to level out the seasonal fluctuations, with some additional capital or investment in inventory and the consequent risk in regard to inventory that comes about from carrying a larger inventory than usual. During the past 3 or 4 years, in some cases, that is considerable risk and, at other times, naturally there is a profit from it if you happen to strike the right time and sell out your inventory. But, altogether, it is a risk in business which I think is warranted not only for the good of the employees, but also for the economic good of the employer. It is a good thing to have a steady production and to keep your hands employed and keep them busy and able to retain their skill, rather than have them laid off and lose that skill and come back and start all over again, which is the maximum injury that might come from such actions. So that I feel this is a particularly desirable feature of the bill.

It provides opportunity for voluntary plans to be set up by the employer if he so desires, with a contributory plan for his employees if they so desire. These two funds are kept separate and under the supervision of the State and the plan which the employer sets up under those conditions must comply in every respect with the requirements of the State plan. But it does provide, if the employees so desire, an opportunity to save some money against a rainy day and have the security of State supervision and, in Massachusetts, it comes under restrictions that are similar to those of the Massachusetts savings banks laws, which are very stringent and sound.

So that it is a fund which the employee can feel fairly satisfied will be available for him in time of need. This would only be a voluntary proposition on the part of the employees and only be through cooperation between the employer and the employees. It does not saddle industry with the expense of public relief which, to my mind, industry should not be saddled with; because there is a social liability for unemployment that distinctly belongs to the public to provide for and take care of. It should not be saddled or put on industry.

It maintains the maximum of desirable contact between the employer and the employee and it is our feeling that that is a very desirable contact. I know that is not in style down here just now; but, at the same time, a large number of us employers have found it profitable and desirable to know our employees, where we are small enough to know them, and to be able to call them "Jim," "John," and so forth, and we think we get better results out of it and certainly have a happier family, and we want to preserve that contact and that attitude between employer and employee in every way it is possible to preserve it. Many of us have grown up together with our employees and probably you understand what that kind of situation is and how much it strengthens the organization.

There is in this bill provided a definite incentive for the employee who is laid off to seek employment elsewhere, under these conditions: Assuming that the unemployment relief is \$10 a week and the employee being laid off can go out and get a job at \$6 a week, he only has to credit \$3 a week, or one half of that, against the benefit he receives from the unemployment fund; so that, whereas he would get \$10 when he was laid off, or without work, he would get \$10 minus \$3 and plus the other \$6, leaving him \$13 net for his week's work. As I say, that provides an incentive for him to get work and to keep busy whenever he can, with all probability of coming back to his original work when the opportunity presents itself.

So that I feel that bill is, in those respects, much superior to this proposed bill and, as I said before, I am free to admit that probably a bill of that kind would not be workable under Federal conditions. But this is one of the cases where I think State operation would be much better than Federal operation for a plan of this kind. And another advantage in it is that one industry is not saddled with the inefficiency of another industry; that is, there are industries that are necessarily of a seasonal nature and the stabilization of employment there is a risk of that particular industry and, to my mind, should not be saddled on to other industries.

Mr. LEWIS. Is this King proposal in print?

Mr. WILLARD. Yes, sir.

Mr. LEWIS. I think it might be well to send some copies of it to the committee.

Mr. WILLARD. I have one copy here, which I would be very glad to hand to you.

Mr. REED. Could that be put into our record, Mr. Chairman?

Mr. WILLARD, I would be glad, if your secretary will give me a list of your people and how I can reach them, to furnish them with copies of this.

Mr. LEWIS. He will do that, and there should be a subject analysis of this, I fancy, somewhere.

Mr. WILLARD. Mr. Chairman, there are several other things in there. There is a short description of the particular benefits of this bill, some of which I have been telling you about. There are also in there some provisions for the supervision of private employment agencies, which has been proposed by this commission, and the bill itself is considerably shorter than the pages there represented in that pamphlet.

Now, we have in Massachusetts a few other things that are of interest in that respect. I do not know whether you are familiar

with the Massachusetts savings-bank insurance plan, where there is an insurance that is provided without the expense of solicitation on the part of salesmen, or collection on the part of collectors, and it is operated through the various savings banks, who become agents, and those who wish to take out insurance, under this kind of plan, can do so at very small expense by having an examination, taking out a policy and going to the bank and paying their premiums at the regular intervals that are required.

We, in our particular business, have a credit union which is under the same regulation as savings banks are, and our credit union, as it does in many other plants there, carries on this bank life-insurance work and makes it convenient for the employees in the plant to get this insurance.

Now, this insurance is subject to the payment of cash values as any good insurance is; is subject to loan the same as other insurances are and, of course, as it accumulates, it provides a nest egg against unemployment, old age, or unusual or unexpected sickness, and emergencies of that kind.

Justice Brandeis originated this idea and even today is putting his hand in his pocket and supporting some of the activities in regard to it, and he made the statement it did away with the necessity of old-age pensions, and so forth. Well, for those who have it, that can develop, that is true; but, of course, there are those who cannot pass the insurance requirements, and it would not be true in regard to them. But it has its advantages in that respect and offers an opportunity for the accumulation of income or savings that are helpful under those conditions.

Now there is another angle to this situation in regard to a Federal bill, which I want to call attention to, and that is the provision of 5-percent assessment on the pay roll, together with the provision for charging up against that or, rather, for deducting from the Federal assessment such amount as we pay to the State, under the State assessment, provided the State bill is approved by and in line with the Federal requirements. In Massachusetts, this 2 percent which the King bill provides for would be in that class.

But the interesting part of that situation to me—and the point I think is very important—is that providing we are operating a fairly steady industry or plant and we accumulate, after a time, the 75 maximum dollars that are required, from then on, we make no contribution; while, under this Federal law, as I understand it, we would have, after that time, to contribute the full 5-percent assessment required by the Federal law and to continue to do so until our \$75 fund was depleted to the point where we would begin again to contribute to that, when we could deduct that contribution.

It seems to me that is somewhat an unfair situation and some amendment should be applied there that would relieve us of the liability for this Federal contribution whenever we have complied 100 percent with the requirements of the State contribution.

Mr. LEWIS. That is in addition to the provision now made for a reduction?

Mr. WILLARD. Yes.

Mr. LEWIS. Based on regularization of the employment?

Mr. WILLARD. Yes.

Mr. LEWIS. That there should be another reduction, possibly, based on the completion of the fund and the absence of necessity for the collection of so large a tax; is that the idea?

Mr. WILLARD. Yes; I think so. Frankly, I think we all feel that these contributions to unemployment funds are not adequate relief for real unemployment. They may do for a short time, for a few weeks, 10 weeks, or something like that, which is proper; but, if we run into any long-time unemployment, they would be entirely inadequate. Therefore they are, to a considerable extent, intended to bring about stabilization of employment, on the part of the employer and to level out his productive work, or equalize it, over periods of time, and save fluctuations of employment.

Now, if that is the case and it does accomplish that, it seems to me he has done his duty and he has provided an insurance or reserve such as required by \$75 in the case of Massachusetts, through which he has complied 100 percent with the requirements. After that, it seems to me he should have no further liability, either Federal or State, until unemployment depletes his contribution. It seems to me that is a reasonable expectation.

I think that is all I have to offer in regard to this. I did not dwell very long on what I call the "delinquencies" of the Federal proposition. I think there are a good many holes in it. I do not know but what there is some merit in it, although the fundamental wrong with it is that it is a Federal proposition, to my mind. And, if that is wrong, then really the rest of it does not apply.

Mr. WEST. Do not you think as a matter of fact, there is some advantage gained by having an encouragement, through this form of legislation on the part of the Federal Government, given to the States to adopt their own measures? Do you not think that that feature might justify the enactment?

Mr. WILLARD. It would not seem to me that the assessment of 5 percent on the pay rolls of a State, paid into the Federal Government, would be very much encouragement to the State to pass a law, excepting as they might get a little relief, 2 or 3 percent, if there is that differential. It is a little of a task. Really, would not you call it somewhat of a forcing measure, rather than encouragement?

Mr. WEST. Well, would you have the State plans adopted if this plan rested merely upon voluntary effort?

Mr. WILLARD. I think public opinion or perhaps, we will say, labor opinion—and, when I say "labor opinion", I do not mean necessarily organized national labor unions, but I mean the opinion of labor in general—and the influence of labor on our State legislatures, if it is necessary, will bring about the passing of such laws. And I will go further than that and say that I think a great many employers are recognizing a certain amount of liability there and looking favorably upon a plan of this kind.

Now, I have been president in 1932 and 1933 of the Associated Industries of Massachusetts and we have studied this unemployment insurance law. In fact, we and our industrial relations committee have sat in and done a great deal of work with the commission in trying to bring about a law which seemed to us to be fair and equitable and adequate for the work which it was intended to do and, in my contacts with the membership and executive committee of 40 men who are representative of the industries of Massachusetts, I have yet to

find any one who was absolutely and entirely opposed to it. I have found some who questioned the wisdom to some extent, but I found a great many who approved of the idea. So I do not think there is the danger, perhaps, that you think, that there will be no laws whatever passed.

Mr. WEST. You think recent experience with unemployment has developed a more favorable or sympathetic attitude towards the problem?

Mr. WILLARD. I think so; yes, sir.

Mr. WEST. What do you think the rate ought to be, if there were a Federal law? How high should it be?

Mr. WILLARD. It certainly ought not to be more than somewhere between 2 and 3 percent.

Mr. WEST. You speak of the burden—

Mr. WILLARD. It is quite a heavy load. Now, I have forgotten what percentage of our industries would range in between, we will say, 10 men, or 100 to 150 men, which is not a very large industry; but, at the same time, a very large percentage of them are these small manufacturers I speak of who have little factories. I will speak of my own section, because I know it. In the rural districts of the State of Massachusetts, Maine, New Hampshire, and Vermont, they employ the men folks in the winter and employ the women folks more in the summer, sometime when they can spare the time, and it is a really definite, desirable, and necessary income for these people. It helps them to build up their income for the year in cash. If you know anything about a New England farm, you do not get a farm until you clear off the rocks and build a lot of stone walls, and one thing and another, and get a chance to plant a few potatoes, and so on. You do not get very much cash income out of it unless you can do it in some such way. So the rural communities in that section of the country are just full of these little industries.

Mr. WEST. What is the percentage of labor cost in production alone—just approximately?

Mr. WILLARD. It depends altogether on the character of the article. For example, the manufacturer who is turning out those bundle handles for Woolworth & Co., and many of these organizations make small parts for automobiles, refrigerators, or something of that kind, and run screw machines, perhaps, and in that the percentage of labor is very large, maybe going as high as 50 percent or more. I am just guessing there, because I do not know.

In our industry, we manufacture heavy leather for sole leather, transmission belting, and those kinds of things. There is a product which sells anywhere from 50 cents to \$1.50, according to whether it is manufactured, or turned out as a hand product. Our labor is a small proportion, no trouble at all. Frankly, we would absorb the most of this insurance cost, possibly; but that is impossible for a manufacturer whose labor cost is a very large percentage, as it is in many metal industries—great foundry-working industries. Whereas up in that country wood don't cost much of anything—you just chop down a few birch or maple trees and make them up into these various products—labor is the major part of it, and this proposition might swamp easily that kind of an industry.

Our country is full of that kind of industry. Connecticut has a lot of them. I think you will find them scattered pretty well around

the country. I know in our membership list of the Associated Industries of Massachusetts, during this slack period running from 1929 to 1933 and down to the beginning of this year, at about every meeting we would have a list of companies who had discontinued their membership and very often many of those, perhaps 50 percent of them, would be cases of "gone out of business"; "gone out of business"; "gone out of business." Now, it was done by the depression, but it also indicates there are a number of marginal groups of people who have not gone out of business, but who are in a position where, if a much larger load is applied to their already expensive set-up, it is going to put them over the line.

I am not by any means one of those defending the sweatshop idea; I am 100 percent for any regulations the N.R.A. has set up, such as minimum wages, maximum hours, and so forth; but I think, after we have done that, we ought to go on and give them a fair chance to make a living and to make some profit and recoup this working capital they have expended during these years, and get back on their feet again. And they will do it, if given a chance. But, frankly and honestly, as I see things going on in Washington, it seems to me almost as soon as a man gets a little confidence and feels he is getting somewhere, something comes along and he is right up against it. I do not want to be pessimistic, but that is the impression a fellow gets when he reads the newspapers and come down here once in a while.

Mr. REED. What percentage of the membership connected with the Associated Industries would you say favors the King bill, in principle?

Mr. WILLARD. It is very difficult for me to state that, Mr. Reed. We have about 1,200 to 1,500 members; there are about 40 members on the executive committee, and we have held meetings this last week or two in 5 or 6 different centers around the State and, in talking with the chairman of our committee before I came down here yesterday, he indicated to me that with rare exceptions the men who had attended those meetings spoke favorably of the King bill. And he said he had not in mind a single member—I think there was one member, possibly, who originally objected to it, but I do not think it was either a stand-pat attitude or a favorable attitude toward the plan.

Mr. REED. I understand the King bill is in operation. How long has it been in operation?

Mr. WILLARD. It has not been passed yet.

Mr. REED. It is just proposed?

Mr. WILLARD. It is now before the legislature and hearings were held yesterday and it will be subject to hearings now from time to time for a week or two yet.

Mr. REED. So far, has very much opposition developed to it?

Mr. WILLARD. I do not know of very much. I was not able to attend the meeting yesterday, because I had to come down here, and I have had no report from that hearing. But my impression is that there will be very little strong opposition to it.

Mr. REED. In the hearings so far have they presented the plans of England and France and Germany and other countries?

Mr. WILLARD. Well those plans have been studied and gone over very carefully. Stanley King is the president of Amherst College and he is formerly a manufacturer in the shoe industry with many years' experience, and Harry P. Kendall was on your Industrial Advisory

Board down here as a cotton manufacturer, and has very liberal ideas in regard to matters of this kind. I do not remember the other members of the commission, but they were men who would not carry through a plan of that kind without giving it the most careful study and I am sure that they have studied all of these plans.

And I know our own industrial relations committee, which consists practically entirely of industrial men in our plants who look after the personnel, they are men of wide experience who meet regularly all through the year for the discussion of industrial matters from a personnel point of view; so that their experience and advice is valuable and of a reasonably fair and liberal type.

Mr. REED. From your study of the King bill, you are heartily in favor of that bill, are you?

Mr. WILLARD. Yes, sir; I would favor the bill. I am on the committee that studied it during the year and our entire committee unanimously favors the bill.

Mr. REED. Would that bill stand alone and operate in a practical manner if you would have the particular type of bank set-up you have there?

Mr. WILLARD. Oh, yes—excuse me; perhaps I did not clear this up for you. That bill has no tie-up at all with the savings-bank life insurance which I mentioned.

Mr. REED. You mentioned it, and I wondered——

Mr. WILLARD. No. The bill is in the hands of the commissioner of industries, of labor and industry, of the State, an official of the State, and he, together with the comptroller and the treasurer of the State, have charge of the investment of the funds and those funds have to be invested in Government securities of one kind or another, or State securities, that are easily marketable and can be put on to the market without disturbing market conditions of other securities, and so forth. I believe 40 percent of it is required to be kept available in the Federal Reserve bank in cash or in some bank where they can draw interest, an approved bank, where the money is supposed to be safe.

Now, the savings-bank life-insurance plan is an entirely different proposition and entirely separate from that. It was fostered by Mr. Edward Filene and Justice Brandeis, and other men of their type, many years ago, long before there ever started any discussion of unemployment insurance, as far as I know, and it has been working for a considerable length of time and there are a large number of employees in the State of Massachusetts who are now carrying insurance under that bill at a great saving over the former expense of carrying insurance. And those two are not in any way connected. They, of course, are related, because they both try to accomplish similar objectives.

Mr. REED. Under the King bill, does the employer come into it voluntarily, or is he forced into it under the law?

Mr. WILLARD. No, it is compulsory; and I believe it should be. I can imagine a lot of employers who would be willing voluntarily to do it, but I know it must be compulsory to bring manufacturers in who would not otherwise come in as they should.

Mr. REED. As applying to the manufacturer, how many employees must he have in order to bring him under the plan?

Mr. WILLARD. Ten or more.

Mr. LEWIS. Thank you very much indeed, Mr. Willard. Now we will have Dr. Edwin S. Todd.

STATEMENT OF DR. EDWIN S. TODD, PROFESSOR OF PUBLIC FINANCE, MIAMI UNIVERSITY, OXFORD, OHIO

Dr. Todd. My name is Edwin S. Todd, professor of Public Finance, Miami University.

My interest and my opposition to a general unemployment insurance bill of any kind is owing very largely to my experience in Great Britain and in Germany. I spent all or rather a part of each year 1931 and 1932 in Great Britain, and several months in Germany, at the close of 1931. I should like to address myself, with your permission, to this question: Whether an unemployment-insurance measure, that is, a general unemployment-insurance measure, is economic and fiscal or, rather, whether there is fundamental soundness from an economic and fiscal standpoint to the proposition that unemployment insurance is the only or even an effective means of preventing widespread industrial depressions.

Unless I am greatly mistaken from my reading of the press during the last few months—and you will set me right if I am mistaken—I am very sure that the ordinary man on the street has the notion that in some way or other a general unemployment-insurance measure will be very effective in preventing and doing away with widespread industrial depressions.

Mr. Lewis. I think little time need be spent on that. It is generally admitted.

Dr. Todd. Yes. In introducing myself to this question, I should like to make a very brief survey of the European experience with unemployment insurance.

Mr. Reed. Mr. Chairman, perhaps the witness might not understand just why you rather foreclosed his remarks. It has been developed here by various witnesses in the hearings here, Doctor, at such times as I have been here—and they all seemed to agree that while it may alleviate some minor depression or cushion it a little bit, at the same time none of them asserted here, as I recall, that it would prevent a depression.

Mr. Lewis. No.

Dr. Todd. May I say, in the first place, that the argument is very frequently presented on the British experience, or European experience, that it is of no value to us in the United States, because that country is and has been on the dole. This argument rests on an entire misapprehension of the real facts. As a matter of fact, Great Britain has now and has had for 20 years a standard insurance scheme. Strictly speaking, the term "dole" should be applied only to gratuitous payments from the national treasury for the support of those who have failed to qualify for regular or standard insurance benefits.

Another argument that seems to be widespread in the United States is that Great Britain made little or no attempt to place unemployment insurance on a precise actuarial basis. This argument is based on an erroneous assumption. No one can read the various reports of the British Royal Commission on Unemployment Insurance, or talk with those responsible persons who were in sympathy with the movement, without coming to the conclusion that the British thought they had at least approached an actuarial and fool-proof basis for unemployment insurance.

The character of the original scheme is best illustrated by quoting Sir William Beveridge, who says:

The scheme was conceived only as a first line of defense against distress due to unemployment. * * * The scheme was introduced experimentally for a few trades--those where systematic short-time work was customary. * * * It was meant to provide a benefit, strictly limited in duration, to men whose eligibility for benefit could be determined by some simple, automatic test and under rules designed to interest work people and employers alike in reducing unemployment and avoiding unnecessary claims.

A third argument or assumption frequently encountered is that we should ignore British experience--this was the argument presented a great deal in Ohio last year--because the British scheme is unlike those proposed in certain American States. But even if we do ignore British experience, we still have to face the fact of recent experience in Germany. The Germans exercised their usual thoroughness in devising an unemployment-insurance scheme. Practically all manual workers and salaried employees receiving less than \$2,000 a year were insured. The German scheme was very much like the plan proposed in Ohio, in that the State was to make no contribution to the insurance fund. Employers and employees made equal contributions. The funds were all placed in a common pool and benefits were strictly limited in time. Now, in order to receive benefits, workers making their first application for relief had to show that they had been unemployed for a minimum of 52 weeks in the preceding 2 years.

Like the British, the Germans considered their plan as being only a first line of defense and there is ample evidence to show they realized from the very beginning that unemployment insurance would be inadequate to take care of the unemployed for a prolonged period. Indeed, in the initial law, they provided that emergency relief should be financed entirely out of public funds and further relief should be provided by local administrative officers.

It may be worth while to note the reasons for the failure of the British unemployment scheme, that is, the regular scheme. The May report on British expenditures supplies a partial answer. The May report, as you probably know, was that of a committee headed by Sir Roger May, I believe, and the report was made about 2 years ago. He goes on to say:

Because politicians--

And the writer might have included many professional social reformers--

Have found it so easy to promise a program of wholesale expenditure without regard to whether the program is administratively possible or whether it will have the desired result, or whether the country can bear the cost.

And we have the further testimony of Ramsey McDonald in a speech in Parliament on September 12, 1931:

Every person who has been in public office knows that we have built up a series of aids and defenses piecemeal--it has not been done systematically--until today, whatever piers of social legislation is surveyed, we find the legislative architecture inconsistent, inadequate, and clumsy.

One of the chief difficulties in the administration of the regular unemployment insurance scheme in Great Britain has been the introduction of transitional benefits for those who were unable to make the standard contribution to the regular insurance fund. You probably

are familiar with the fact that the standard contributions were 30 pence a week; that is, 10 pence from each the employers, employees, and the state. When the law was made more liberal, in 1921 or 1922, the provision was made that any one who had made a contribution of 8 pence during the last 2 years could become eligible for benefits.

The beneficiaries of transitional benefits included (a) those who have been in receipt of insurance benefits but are no longer able to qualify under the standard regulations; (b) those who in recent years have had little or no insurable employment; and (c) those who are no more than just within the employment field at any time. These are the classes which today are receiving the so-called dole. If the tremendous growth of these "transitional" beneficiaries does not prove the possible breakdown of any unemployment insurance scheme, it does surely prove that no regular standard insurance scheme on a presumably actuarial basis can possibly tide us over an extended period of unemployment.

Another argument frequently heard last year in my home State of Ohio, as well as in other States, was that unemployment insurance would do away with the necessity of using public and private funds for unemployment relief. In answer to that argument, it is worth while to note that such has not been the case in Great Britain. Expenditures for local poor relief are greater than ever before. It may be interesting to note what the Royal Commission on Unemployment Insurance has to say in this regard. The first report of the Royal Commission on Unemployment Insurance goes so far as to declare that the operation of the poor law, local outdoor relief, has been in many cases a detriment to the effective working of the insurance scheme. In many areas and in many cases, particularly in the case of persons with a large number of dependents, the poor-law administrators have supplemented unemployment insurance benefits by local outdoor relief. Indeed, instances were found where the amount of outdoor relief, plus unemployment benefits, was higher than the earnings of the applicants when in employment.

It must be noted in this connection that we are not referring to the receivers of the "dole" alone, but to the beneficiaries of the regular insurance fund in Great Britain. One significant fact stands out, that while many unemployed prefer to obtain benefits from the insurance fund, they no longer have any scruples about asking for outdoor relief. And on this last point, the Royal Commission on Unemployment Insurance's last report, at page 138, declares:

Although there are areas in which an application for public relief is felt to involve a stigma of "poor relief", it is significant that they are diminishing in number.

Even under the new law now pending before the British Parliament— you may know, as well as I that the British Parliament is at this moment debating a new unemployment insurance measure, of which I will speak later, because I think the experiences of Great Britain in the depression, a summary of them at least, is of great importance to us in this country— even under the new law now pending before the British Parliament, the fully covered contributor to the standard insurance scheme will often find himself drawing less than the noncontributor at the same unemployment exchange; so that the man who has been refused insurance benefit, because he abandons his work without just cause, may then proceed to draw a larger sum from the Board of Unemployment Relief.

Now judging from British experience, I merely raise the question whether any American State, even through the aid of Federal legislation, can set up a system of unemployment insurance that will prevent beneficiaries from seeking and obtaining relief elsewhere. It seems to me that is a very important point in the consideration of this whole question. If the experience of Great Britain has resulted in an increasing mass of men and women who, despite unemployment insurance, must depend or at least do depend upon local outdoor relief, or upon gratuitous doles from the national exchequer, what can we expect in the United States if we embark upon the perilous sea of general unemployment insurance relief with the belief that this plan and this alone is the solution of our many industrial problems.

Another reason why the British unemployment insurance plan encountered serious fiscal difficulties lies in the fact that unfair advantage was and is taken of insurance benefits by many intermittent, casual, short-time, and seasonal workers. For example, take dock laborers. Dock laborers were employed 3 or 4 days a week at full wages (the Royal Commission says in many cases at very high wages), and they had an off period during the last 2 or 3 days of the week. In that off period, they immediately applied for and received unemployment relief. That has been one of the great difficulties with the enforcement of the law in Great Britain.

The final report of the Royal Commission emphasizes this point by saying:

Persons who work exclusively at week-ends in the distributive trades would hardly have troubled to record themselves as unemployed if the scheme had not made it possible for them to claim benefits in respect to the rest of the week.

That is at page 98 of the report. My own researches in Great Britain furnish abundant evidence that there is little or no hesitation among British workers to make an unwarranted use of employment benefits.

Mr. LEWIS. Doctor, may I interject there this question: Do you not find the same psychological attitude universal in life? For example, you would not deny the validity of the whole principle of fire insurance because some policyholders burn their buildings to get the payment of the policy; or you would not think of repealing the workmen's compensation insurance, or life insurance, despite the fact that the person may form a fraudulent purpose to commit suicide as soon as the policy becomes payable? Indeed, I question if there is hardly any institution that has not objections of that sort, or difficulties of that sort to encounter.

Dr. TODD. I quite agree and yet I think my point is well taken that what a great many of us seem to be arguing for is a general unemployment insurance and that it will work from the standpoint of the fiscal aspects and that it will solve the major portion of our problems.

Mr. LEWIS. That idea has not obtained in these hearings—that this measure would lead to the prevention of major depressions, or to anything more than an alleviation, not a complete indemnification, an alleviation, in the way of bread in the basket of the laborer out of work without his own fault.

Dr. TODD. Probably that will be touched upon a minute later on, if you will. Indeed the argument has been advanced in the United States and especially in Ohio, as I happen to know, that if we had had

an unemployment insurance scheme in operation in 1923, there would have been piled up a surplus between 1923 and 1929, sufficient to have tided unemployment over a great part of the present period of distress. It is true that in 1920 the British insurance fund had a credit balance of \$110,000,000, reckoning at the old par of exchange; but this fortunate situation was due entirely to the fact that the exigencies of the war and the immediate aftermath of the war operated to prevent any great use of the fund. It will be noted, however, that in 1 year, by July 1921, this surplus had changed into a deficit and the deficit has kept piling up ever since until the total today is about \$115,000,000 in the regular insurance fund. The proposal before the Parliament is that under the new scheme it shall incorporate this \$115,000,000 to be amortized during the next 50 or 60 years.

Now, once more, a final argument often heard in the United States against paying any attention to foreign experience with unemployment insurance is that no State in the United States intends to make the State or National Treasury a contributor to any unemployment insurance fund, but to make the burden fall upon both employers and employees or upon the employers alone. In discussing this argument, suppose we ignore the British scheme, where the State is a contributor, and note the recent experience of Germany. I do think it of great importance, at least, that we should know something about it in our country, before we go very far in financing a general unemployment scheme.

The Germans exercised their usual thoroughness in devising an unemployment insurance scheme, which was very much like the recent measure proposed for Ohio. Nevertheless, the German scheme proved utterly inadequate to take care of the ever increasing amount of unemployment. The sponsors of the original law thought that a three percent assessment on payrolls would be adequate to meet all needs from an actuarial standpoint; but, as unemployment increased, rates of contribution had to be increased until, in October 1931, the rate was 6.5 percent—more than double the original estimates.

The German insurance fund was balanced in 1932, but only by drastic measures which excluded a vast majority of workers from the insurance fund at the expense of the State. The percentage of unemployed workers receiving regular benefits declined from 7.3 percent in January 1928, to 11.4 percent in October 1932. In other words, two thirds of the German unemployed now receive emergency relief from the National Treasury and one fourth receive no relief whatsoever. When we recall that practically all German workers were insured, this situation presents an astounding revelation of the breakdown of a system that was thought to be far superior to the British scheme.

When we consider the following facts in connection with German experience, namely, (1) that the German worker no longer has a legal right to insurance benefits; (2) that by government decree in 1932 unemployment insurance became available for only 6 weeks; and (3) that in many communes the amount paid out in poor relief is actually higher than the amount received in insurance benefits—we are forced to adopt two conclusions: First, that nothing short of a miracle could save the plans now being considered in various American States from meeting a similar fate—I refer especially to Ohio,

last year; and, second, that it would be unwise for the Federal Government to enact any measure which would tend to force the States to enact a general unemployment insurance measure.

Now I come to the question—did the Germans succeed any better than the British in financing their insurance scheme? As we have already intimated, the Germans made a valiant effort to balance the insurance fund. In spite of the more than doubling of the levy on pay rolls, the insurance fund showed a cumulative deficit by March 1931 of \$364,000,000.

Now the last question that I would like to discuss is a workable basis for unemployment insurance.

Mr. REED. Before you leave that, may I ask a question. You are speaking about the situation in Great Britain and the matter is under debate at the present time in Parliament: How well are you informed about the present status and what is the general attitude on the part labor?

Dr. TODD. I am going to give that in just a minute.

Mr. REED. You are?

Dr. TODD. Yes. My next argument is that before the Federal Congress enacts any unemployment insurance legislation, or before it enacts any measure which would force the States to adopt an unemployment-insurance plan dictated by the Federal Government, it seems to me it would be well for Congress and the legislatures of our States and the people generally to give the most careful attention to a study of a workable basis for unemployment insurance.

In discussing a workable basis, I can do no better than to present the conclusions of the British Royal Commission in its final report, made after a careful study of long-time British experience. This report is the foundation of the measure now pending in Parliament:

First, the committee declares that its recommendations cannot stand the test of practical application unless they are based upon the recognition of the fact that the national income has been drastically reduced and that its restoration must be a slow and painful process. And can we not say the same thing in connection with the United States? Can industry, for quite a while to come, stand the imposition of a tax burden which may or may not lead to a successful solution of the unemployment problem?

Second, a sound policy of unemployment aid or insurance for the future necessitates a thorough examination of the nature and extent of unemployment and the distinction between different types of unemployment.

Until this is done, it seems to me that we cannot get very far. For example, the Royal Commission, in laying this matter before Parliament, says:

Insurance need not and cannot cover all types of unemployment or provide benefit of indefinite duration.

Have we grasped this fundamental fact in the United States, or are we all largely influenced by the older and still popular notion that unemployment insurance is a sovereign remedy for everybody under any and all conditions?

Next, to what extent can unemployment insurance be used? A study of long-time British experience with unemployment insurance leads the Royal Commission to make such statements as the following: Provision against the risk of occasional unemployment can be

made by insurance without exacting contributions which are oppressive; but chronic or persistent unemployment cannot be met fully by insurance. It must also be recognized that once a worker has fallen out of work, there is a tendency for unemployment to recur.

Further, it must be recognized that the persons who made most of the claims draw most benefit each year. Again, insurance can provide an income during spells of unemployment that are not contiguous or too frequent; it cannot support the burden of continuous or almost continuous unemployment, due to personal causes which persist independently of fluctuations in industrial activity.

Another very significant quotation from the British report:

Unemployment insurance connotes a scheme whereby the major part of the cost is borne by the potential beneficiaries and their employers. * * * The receipt of benefits is conditioned upon the payment of contribution by the beneficiary. * * * The original scheme did not purport to do more than enable an insured worker to carry over from one period of wage-earning employment to another. * * * As a result of the measures of recent years the nature and object of the insurance scheme have been obscured and its value disregarded.

There are a good many other quotations of similar point.

Mr. REED. You are going to insert those quotations in the record; are you?

Dr. TODD. Yes. Again, at page 156:

Unemployment insurance cannot cover the whole ground of unemployment relief; and cannot survive a depression unless there is a satisfactory basic relief scheme for unemployed workers who fall outside the insurance scheme.

At pages 156-162:

Occasional interruptions of work can as a rule be covered by insurance. But chronic unemployment caused by loss of markets, displacement by new processes, or a system of engaging labor that retains an excessive reserve of underemployed labor, cannot be fully covered by insurance, since it involves ultimate insolvency of the insurance fund.

So here, gentlemen, we have the conclusions of men who have had long practical experience with unemployment insurance. Can we ignore their conclusions? Can this Congress take any action leading to the introduction of a wholesale scheme of unemployment insurance until we have prepared the way, first, by careful defining unemployment; second, by noting carefully the varying risks as between industries and occupations, and individuals; third, by making careful estimates of the probabilities of unemployment; and, fourth, by carefully noting the extent to which the risk of unemployment is entirely beyond the control of the individual? Until we have recognized and found a solution for these difficulties, it is not unwise to create a situation that may result in confusion worse confounded?

Now, I want to summarize the British views on unemployment insurance. The National Confederation of Employers' Associations of Great Britain says this:

The confederation has declared for a compulsory contributory system of unemployment insurance, provided it adheres strictly to the fundamental concepts and principles of the 1920 act and provided the duration of benefit is in direct ratio to contribution and for a fixed number of weeks in a year. This means, of course, a very limited insurance scheme.

Now comes a very significant statement, gentlemen, from the British Trade Union Council. A few months ago—not more than six—the British Trade Union Council took a new and very important

position on the question of unemployment insurance, which should have a bearing on our decision in regard to future legislation in the United States. It now takes the stand that it is absolutely impossible to operate a system of unemployment benefit on an insurance basis. I was astounded when I read that in the Commission's report, which I received just a few days ago. The Council now boldly declares that the cost of maintenance of the unemployed must be a direct charge on the public treasury. It therefore demands the abolition of all contributions from employers and employees alike and calls for a special unemployment graduated levy on all incomes to raise funds for every person who satisfies the statutory conditions, which must not, however, include a "means" or "needs" test. In other words, the labor unions now stand for a cash payment to any unemployed worker, on proof of unemployment, without any requirement to prove need.

Mr. REED. I am trying to hear every word you say, and would you mind repeating that.

Dr. TODD. It therefore demands the abolition of all contributions from employers and employees and calls for a special unemployment graduated levy on all incomes to raise funds for every person who satisfied the statutory conditions, which must not, however, include a "means" or "needs" test. In other words, the labor unions now stand for a cash payment to any unemployed worker, on proof of unemployment, without any requirement to prove "need." That to me is very significant.

Next, the majority report of the Royal Commission opposes the Labor Council plan on the score that it would be possible to operate such a plan only in a society where the State virtually is in complete control of industry—unless it was under a socialistic state—because the plan amounts to a guarantee of a maintenance of a standard of well-being under all circumstances, merely on the strength of a statement of willingness to work if offered employment.

The Royal Commission comes to the conclusion, which is embodied in the unemployment relief bill still pending in the British Parliament, that there must be a clean-cut distinction between unemployment insurance and unemployment relief—and this again it seems to me is very significant for us in this country.

Mr. REED. The point has been raised here on several occasions that really unemployment insurance was more or less of a misnomer; that there was no real basis upon which you could base an actuarial estimate. Is that your idea, Dr. Todd?

Dr. TODD. Yes. I have talked to a good many men in Great Britain, and representing all phases of opinion, and my notion is that the great majority of them say unemployment insurance cannot be put, universally, or to any great degree, on a precise actuarial basis.

Mr. LEWIS. In other words, the subject of unemployment is not an actuarial subject—it does not possess the constants under which you can make predictions as to future happenings and the quantity of those happenings.

Dr. TODD. Yes.

Mr. LEWIS. That is generally admitted and generally understood.

Mr. REED. It takes it completely out of the realm of what we ordinarily call insurance.

Mr. LEWIS. It is just a short expression for the bill, that is not really descriptive.

Mr. REED. Doctor, would we be correct in drawing the inference from that, that that is a reason why insurance companies have not gone into this as a safe field of insurance?

Dr. TODD. I would not like to answer that question by the card; but my knowledge is that insurance companies have not considered unemployment insurance workable from an actuarial basis.

Mr. REED. Now to shift to another point, which you were covering there, I thought I caught, as you were going along, something about conditions precedent for a person to get insurance benefits—that they had to express a willingness to work: Was that true under the old laws that have been operated?

Dr. TODD. No. The old law was very, very liberal indeed. The proposed bill before parliament seeks to divide the men, the workers, into two categories: (1) those who can be insured and, (2) those who can by no possibility be insured, or who are not able to pay insurance premiums. And they are, as I understand it, to place as many men as they can on the unemployed insurance basis and the others are to be given donations gratuitously. Of course the great danger is that a great many people will slip out of the unemployed insurance altogether and go on the other basis.

Mr. WEST. What is the date of this report from which you have been reading?

Dr. TODD. I believe the final report is November 1932.

Mr. WEST. And about what period of time does it cover with reference to the British experience?

Dr. TODD. The first report begins with 1911; the second report brings it up to 1922-23, and the final report discusses the whole British experience and then, on the basis of that experience, has presented the measure before Parliament which is pending now.

Now, just a moment more, Mr. Chairman, if I may. It seems to me that if we can learn anything at all from British experience, the following propositions are certainly worth while for our thought.

First. The prevention of unemployment presents a problem of far greater importance than the problem of unemployment relief.

Second. No scheme of unemployment insurance can possibly prevent the recurrence of depressions nor possibly survive long periods of distress. We are already agreed on that.

Third. Great Britain never succeeded even in more favorable circumstances in placing unemployment insurance on a real actuarial basis.

Fourth. The British plan failed because of the difficulties involved in selecting the economic groups to be included in the insurance scheme.

Fifth. The British scheme failed because of the continual calls on the public Treasury for funds which can only be secured through borrowing. It was never dreamed of in the beginning that the public Treasury should engineer borrowing on such a large scale. Would this be true of any similar scheme sponsored and administered by our national, State, or local authorities.

Sixth. The British scheme broke down because of the ever increasing ease with which insurance benefits could be secured. Is it possible in a democracy like any one of our States to avoid this pitfall?

Again, and most significant of all, British trade unions have abandoned unemployment insurance and are demanding straight-out gratuitous relief for all unemployed out of the public Treasury. If unemployment insurance projects in the United States turn out, as they undoubtedly will, to be illusory as a great, unique remedy for depressions and general unemployment, will we encounter a similar movement in the United States? I merely put that as a question and a serious one for us to think about.

That is all I have, gentlemen, except if I should be called upon to present some sort of substitute measure for getting out of this depression, instead of unemployment insurance, I might give it; but that is all.

Mr. REED. Evidently you have given a great deal of close study to this, and I am wondering if you have something of a constructive character to offer in lieu of it.

Mr. LEWIS. Something in the form of a draft.

Dr. TODD. Well, I do not want to call it constructive, but it is at least something to think about.

Mr. LEWIS. If you have something drafted as an alternative, I should be very deeply interested in it, indeed.

Dr. TODD. Mr. Chairman, I have a number of documents which I brought with me, which I have written up from time to time, if they are of any value to the committee.

Mr. LEWIS. Thank you.

(Dr. Todd subsequently submitted the following excerpt from an article by him entitled "Unemployment Insurance Further Considered," and printed in the Tax Digest for May 1933:)

NO SINGLE PANACEA FOR UNEMPLOYMENT

The proponents of unemployment insurance in the American States have frequently asked the opponents to present a substitute measure or panacea. If by "substitute measure" we mean a single measure for the prevention of major crises and depressions, the answer is plain and simple. There is no single panacea or cure. We cannot stress this fact too strongly in this time of distress when too many of us are looking to the Public Treasury for help or are grasping at such panaceas as cheap money, debt moratoria, "Buy American," a single tax on land, etc. Indeed, one of our chief difficulties right now is that most of us in our eagerness to get out of this depression have been too much inclined to seize on straws, patent medicines, etc., instead of getting together and thinking the whole thing out, beginning of course with the many causes that have brought us into the present situation.

Right here, I take it, we discover the dilemma of the proponents of unemployment insurance. In the first place, we not only need to get out of the present depression, but to keep out. If we can keep out of future depressions, we will have no use for unemployment insurance; if we cannot keep out, then no system of unemployment insurance can avail us anything. But can we to a large extent prevent future depressions without recourse to the Public Treasury? Yes; but the road we must follow is a long and difficult one to travel.

The beginning of prevention, naturally, lies in the clear understanding of the forces that have brought us into the present "mess," for it is a "mess." And when we sit down calmly and review these forces we shall be compelled to confess that all of us, bankers, industrial and financial leaders, farmers, laborers, and consumers generally, have been guilty of ignoring and violating common-sense rules of banking, investment, business organization and administration, credit expansion, and have been living beyond our means publicly and privately.

THE WAY OUT

By this token the way out is complex, involved, and long-drawn out. It involves:

1. A better organization and administration of our banks and our building and loan associations, looking to the conservation of credit along common-sense rules of prudence and thrift.

2. A wiser and more conservative control of business organization on the part of our business leaders so as to prevent forever useless combinations and mergers such as those which have been not only a national disgrace, but a source of loss and ruin to so-called investors.

3. A return to common sense in the substitution of true principles underlying investment in place of the so-called "new" rules of speculation which have proved the undoing of thousands of us who still refuse to blame ourselves for our unfortunate situation.

4. A very decided toning down of high-powered advertising and selling, which must eventually prove the undoing of their authors. This includes, of course, the cessation of wild installment buying "without money and without price."

5. Constructive modifications in our protective tariff policy so as to restore our international trade to former levels.

6. Wise, common-sense control of public expenditures and public borrowing.

This, then, is our answer to the incessant request of the proponents of unemployment insurance for a "substitute" measure. If the advocates of unemployment insurance deny, and many of them do, that no substitute measure or measures will prevent another long period of unemployment, then they are forced to conclude, with British and German experimenters, that unemployment insurance will not and cannot prevent the recurrence of a situation which may be as bad as or even worse than the present one, in which case we must reckon with the fact that unemployment insurance will result in the inevitable disruption of State public finance and the possible bankruptcy of the Public Treasury.

STATEMENT OF JOHN C. GALL, ASSOCIATE COUNSEL NATIONAL ASSOCIATION OF MANUFACTURERS, WASHINGTON, D.C.

Mr. GALL. My name is John C. Gall; I am associate counsel of the National Association of Manufacturers.

I may say I have been connected with the National Association of Manufacturers for the past 13 years, Mr. Chairman. I am located in Washington most of the time, and in New York part of the time. We have offices in both places.

Mr. LEWIS. Mr. Gall, without any purpose of limiting your statement, because the committee wants the full benefit of your thought, you have attended this hearing, I think.

Mr. GALL. I attended the first 2 days of the hearings, Mr. Chairman.

Mr. LEWIS. Well, you are advised as to the points which are already presented and as to which there is no real disagreement, so we will appreciate it if you will concentrate on points of your own.

Mr. GALL. I will, of course, try to do that, Mr. Chairman. You will understand I am at a considerable disadvantage, because of the inability to get a transcript of what the other witnesses said that I did not hear. We undertook to purchase a transcript; but, according to the rule of the committee, we could not do so; consequently, that may account for some overlapping of testimony that is unavoidable.

Mr. LEWIS. Oh, well, some overlap that is unavoidable.

Mr. GALL. As a matter of fact, Mr. Chairman, I do not think I am going to develop any of the testimony that has been given to this committee, for several reasons. In the first place, until today practically every witness has been a proponent of this bill and, as I approach it from an entirely different viewpoint, it is very doubtful

whether I would produce overlapping testimony. In the second place, up to the present time, the committee has listened to arguments directed almost exclusively to the merits and demerits of unemployment insurance as such. Now if your theory of this piece of legislation, Mr. Chairman, is correct, it is not an unemployment insurance bill in the true sense of the term; it is a revenue measure. Consequently, I have not devoted my primary attention, in the preparation for this argument, to unemployed insurance as such, but rather to the bill that is before the committee, to the fundamental concept of it and to the question, I may say, as to whether Congress has any authority to enact the piece of legislation which is before you.

I heard you say this morning, Mr. Chairman, in discussing briefly the matter of validity, that you were convinced that the Congress did not need to use the device of a tax in order to deal with unemployment insurance. I hope you will correct me if I am wrong in my statement of your position.

Mr. LEWIS. No; you are correct.

Mr. GALL. That you believed Congress had authority to deal with unemployment insurance directly.

Mr. LEWIS. I may state, briefly, in explanation, that I made a study of the history of the welfare clause, which has probably not come to your notice, and the result of that study is the conclusion that the welfare clause itself confers a legislative power and is not a mere tail to the taxation clause. That is the background for my statement this morning.

Mr. REED. You have come to the conclusion that the welfare clause was not a limitation?

Mr. LEWIS. No; rather that it was a grant of legislative power and not a limitation. I will be glad to put that study in your hands.

Mr. REED. Perhaps you misunderstood my thought; that is, that there is a limitation where an appropriation might be made on legislation passed under the welfare clause; that it would be limited to something that was national in purpose and scope.

Mr. LEWIS. Interstate in purpose and scope.

Mr. REED. Of a national character.

Mr. LEWIS. Yes.

Mr. GALL. Mr. Chairman, of course I do not think this committee wants an extended discussion of the constitutional principles involved here. At the same time, I think it is only fair to the members of this committee who are not present, and to the Members of Congress who may consider this bill within a few days and who have not had the benefit of your own studies in this field of constitutional law, that I should discuss to some extent the question of the authority of Congress in this respect.

Mr. LEWIS. I think the subject of your remark is very timely indeed.

Mr. GALL. My first observation about your position is this: I understand, of course, I am not privileged to ask questions of the Chair and I am not trying to do that and am not trying to embarrass you in any way, but the thought naturally occurs to me, if you have authority, if Congress has authority, under the welfare clause, to deal directly with the subject of unemployment insurance, then it is not necessary to employ the device of a tax, and why does not Congress legislate directly?

Mr. LEWIS. Because it is desirable that Washington should be relieved, as far as possible, in my view, of all work that can be done reasonably well in the States. I humorously remarked the other day that I would be willing to strike a bargain with Uncle Sam that if he doubled my time he could cut my salary in half. There are 120,000,000 people in this country and while it is true that this is a national community and many things suggest strongly the desirability of a uniform rule for the whole country, the matter of administration in my view suggests that more of this public work has got to be pushed back upon the States and upon local communities.

Mr. GALL. I sincerely sympathize with that view, Mr. Chairman. It is a good old Maryland view and one which the present Governor of your State has many times expounded in your State.

Mr. LEWIS. It is not an adopted one with me; it is one that is the result of my own experience here as a public man in Washington.

Mr. GALL. As a matter of fact, if you carry that argument to its logical conclusion, I think it means in many of those things it would be better to let the States alone and let them develop their own legislation on those subjects in the light of their local conditions, rather than to try to write for them by legislation, such as this, even minimum standards which they have to meet.

Now the theory under this bill of interfering with the States' right to develop their own types of unemployment insurance legislation is to my mind not sound. In the first place, this bill is only a beginning. You start and set up a certain minimum standard here and I say to you that even the one State which has passed an unemployment insurance law so far—that is, Wisconsin—cannot meet the minimum standards of this bill. The Wisconsin law will not qualify under this bill. So that the very first application of this statute, if it were passed, would be to require an upward revision, or a revision, at any rate, of the law of Wisconsin.

Now I think that is a very unfair thing, because those people have tried to meet, in terms of their own necessities, the situation with respect to unemployment. They have set up a system which is satisfactory to them and why should Congress undertake, through this legislation, to compel them to change their entire situation, even if it can?

Now, while I am on the Wisconsin situation—because I know you are very much interested in that and Mr. Frear, who is a member of this subcommittee, would be if he were here—let me say there is another very serious situation going to arise in Wisconsin if you pass such a bill as this.

I do not know whether you realize that under the Wisconsin law the State Industrial Commission had authority to enter into 5-year contracts with employers who set up reserve systems that were satisfactory under the Wisconsin law. A very large number of employers in Wisconsin, relying on the invitation of the law and of the Industrial Commission, have submitted plans which have been approved by the Industrial Commission of Wisconsin and under which agreements the Wisconsin Industrial Commission has said they may not be modified for a period of 5 years. That was a guaranty to these employers, if they came along and went under the law voluntarily, that they would not have their burdens increased for a period of 5 years. Now, if you pass this law, Wisconsin cannot qualify without

changing its law and it cannot qualify without changing all of those contracts. So that if those employers are to get the benefit of their contracts with the Wisconsin commission, they still have to pay the 5 percent excise tax levied by this bill, and I think that is a very unfair situation as respects Wisconsin.

Now I want to come back for a moment, Mr. Chairman, if I may, to your suggestion that the general welfare clause would authorize this legislation. I am not going to discuss it at length, because you have not, in fact, undertaken to legislate under it. You are undertaking to use the taxing power. So my discussions of the constitutional question will be limited largely to the latter.

But I want to point out that Mr. Chief Justice Hughes, just before he went back on the bench, had occasion, as counsel for the petroleum board, which had been set up 2 or 3 years ago, to discuss the general-welfare clause. You might recall that the Federal Government at that time desired to establish some kind of control over production in the petroleum industry—over production and distribution—and the argument was made for it that the Government could do that under the general-welfare power. I would like to read to you, just in passing, what Mr. Hughes had to say. I would not read that except, since he is the Chief Justice of the United States, I think perhaps it would have some weight with the committee, most of whom are lawyers.

Mr. LEWIS. Did he win or lose the case?

Mr. GALL. He won. As I say, this was a statement on his part before the oil board which was set up 3 or 4 years ago; it was not litigation in which he was involved. However, I will say this, sir, that there is not a single decision of the Supreme Court of the United States wherein the general-welfare power, so-called, has been discussed where the court has not said, and very specifically, that the general-welfare clause contained no grant of power to Congress. I would be very glad to have any decision of the Supreme Court where the question has been discussed and disposed of otherwise, put in the record. I am sure there is not one.

Mr. LEWIS. Do you consider the courts the only source of truth and correct interpretation of the Constitution?

Mr. GALL. No, sir; I do not; but in many instances—

Mr. LEWIS. That is a very important admission, Mr. Gall.

Mr. GALL. I do not. However, I have great confidence in the courts and I believe it is a proper function of a court, when a statute comes before it, to determine, first and foremost, if the constitutional question is raised, whether that statute or the Constitution shall prevail. And, if it is inconsistent with the Constitution, of course it is the duty of the court—as pointed out ever since Chief Justice Marshall, in *McCulloch v. Maryland*, and other cases—to declare that the Constitution must prevail and not the statute. I have seen many cases here on the Hill, in the last 13 or 14 years, where Members of Congress have said, when in doubt about the constitutionality of a bill, "I am going to give the farmer", or "I am going to give the bill", or whatever the group might happen to be, the benefit of that doubt. Now, if there is a serious doubt about the validity of a measure, I think the doubt ought to be resolved the other way; because, when you resolve the doubt in favor of the bill, you are resolving against the Constitution. I do not want to be presumptuous enough to

suggest to you what a legislator's duty is, but you know your oath of office and you know, if there is a doubt as to whether a thing is inconsistent with the Constitution, your oath of office compels you to vote against it.

Now I think beyond the question of a doubt that the bill before you is unconstitutional. I think I can demonstrate that by an unbroken line of Supreme Court decisions. I think furthermore, Mr. Chairman, you cannot disclose or put on the record a single Supreme Court case wherein the taxing power of the Government has been used for the purpose of achieving or compelling uniformity of State legislation with respect to a matter such as this, where the Court has sustained the statute. On the other hand, I can show you three cases in which the Congress has undertaken to use the express powers it had, in the exercise of the taxing power in two cases, and in another case the power over commerce for the purpose of achieving a local regulation, and the Supreme Court has, in all three cases, declared the acts invalid.

Now it seems to me, if my statements are correct, that, before this committee considers the reporting of this bill it ought to give very serious consideration to the question of validity. I will give you the citations before I finish of the cases to which I have referred and I am quite sure that no cases to the contrary can be shown; because I have undertaken to study the decisions in order that I might develop anything which would seem to support the power which is asserted to lie back of this bill.

Mr. Hughes, on May 27, 1926, said:

I am aware that it has been suggested that such Federal power to control production within the States might be asserted by Congress because it could be deemed to relate to the provision for the common defense and the promotion of the general welfare. * * *

The suggestion to which I have referred is an echo of an attempt to construe article I, section 8, subdivision 1, of the Constitution of the United States, not as a power "to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States", but as conferring upon Congress two distinct powers, to wit (1) the power of taxation, and (2) the power to provide for the common defense and the general welfare. In this view, it has been urged that Congress has the authority to exercise any power that it might think necessary or expedient for the common defense or the general welfare of the United States.

Of course, under such a construction, the Government of the United States would at once cease to be one of enumerated powers and the powers of the States would be wholly illusory and would be at any time subject to be controlled in any manner by the dominant Federal will exercised by Congress on the grounds that the general welfare might thereby be advanced. That, however, is not the accepted view of the Constitution. * * *

This is too elementary to require discussion and it is impossible to believe that the legal advisers of the board will suggest that it proceed on any different view.

I merely put that in, Mr. Chairman—

Mr. REED. And then the general-welfare clause, as I stated, was held by Hamilton, and it has been held all along the line as a limitation.

Mr. GALL. As a limitation on the taxing power, and no more.

Mr. REED. That is, the Congress can, under that clause, tax things of a national character, as distinguished from local?

Mr. GALL. Exactly, sir. Mr. Chairman, I hope the members of the committee will feel free to ask questions at any time. It is true I have some material arranged in rather logical order—

Mr. REED. I did not mean to interrupt the witness at this time; I just wanted to bring out that point.

Mr. GALL. That is all right. I have a good deal of material which I think it is very important to get into the record here. I have not my material prepared in such form that I could simply hand it to the reporter; if I did, I would be glad to conserve the committee's time. But, in view of the importance of the subject, I feel justified in trespassing somewhat even on the committee's time, and as long as you will bear with me, I have no reservations whatever about your interrupting at any time to take issue with any statement I make, or to ask any question about it.

Mr. Chairman, you might think, from the way I started out here, that my primary purpose was simply to come before you and to say we oppose this bill and let it go at that, or simply to make an argument as to the question of validity and let it go at that. That is not my purpose at all. I agree thoroughly with the proposition that, if an objector has anything to offer, he ought to do it. I do not go so far as to say he has no right to criticize merely because he has nothing to offer, which is the view some people take. Before I conclude, I will make some very definite suggestions to the committee as to the form which we believe Federal legislation can take and be valid; second, if this committee rejects the argument I make as to validity of this bill and decides to report the bill that is before you, I have some very concrete amendments that I would like to propose.

Mr. LEWIS. May I make the suggestion that you give us a list of your authorities that go to the validity of this measure?

Mr. GALL. Yes, sir.

Mr. LEWIS. And then make the independent suggestions you have referred to, later?

Mr. GALL. Yes, sir. I would like, Mr. Chairman, at the outset to put in the record, in case it has not been done, the letter from President Roosevelt endorsing this legislation. I do not know whether that is in.

Mr. LEWIS. We would prefer that you should not put it in.

Mr. GALL. You would prefer that it should not go in?

Mr. LEWIS. It was meant to be presented to the general committee from the White House; that is the reason.

Mr. GALL. I understand. I was going to put it in, because I wanted to comment on one or two paragraphs in it.

Mr. LEWIS. You will have to do it, then. Put it in.

Mr. GALL. I just wanted to comment, by comparison, on one or two paragraphs in the President's letter upon the question that was asked a moment or two ago (of another witness)

You stated, Mr. Chairman, it was generally agreed that the term "unemployment insurance" was simply a convenient term and it was not insurance in the ordinary sense of the word. I just wanted to point out apparently the President does not agree with that conclusion and he apparently believes "unemployment insurance" has underlying it all of the actuarial bases which underlie insurance as such.

Mr. LEWIS. I had the pleasure some months ago of talking with the President on annuity and other subjects and I found him the best informed man on the insurance subject I know of in public life.

Mr. GALL. I think undoubtedly, if we all had the same opportunity, we might agree with you. I do believe, however, Mr. Chairman, in the week which you have spent listening to testimony with

respect to your bill, almost all of that testimony coming from those who are friendly to that legislation, that you have only scratched the surface of available data which ought to be studied before legislating on this subject, and there is a great deal of data reduced to writing, in addition to the President's letter, which the committee ought to consider.

Mr. WEST. What was the reference in the President's letter that caused you to have that conclusion?

Mr. GALL. Mr. West, it is the following paragraph:

* * * There is no reason why they should assume the entire burden of meeting a foreseeable loss—

He is referring to employees—

* * * There is no reason why they should assume the entire burden of meeting a foreseeable loss, the major cost of which ought to be computed and borne like every other cost of a business.

Now, if that is not the principle of insurance, I do not know what the principle of insurance is. The principle of insurance is that loss is foreseeable and that the burden of it can be spread over a large number of people, can be computed, as he says, on an actuarial basis, and can be figured and reflected in the cost of doing business as every other element can. Now, with respect to unemployment insurance, I submit that is absolutely unsound.

Mr. LEWIS. He was doubtless referring to chronic unemployment and not to the abyss in which we are thrown now, where the employers are often almost in the same distress as their employees.

Mr. GALL. Mr. Chairman, that interpretation of the paragraph is undoubtedly all right—

Mr. LEWIS. The loss may be foreseeable, but the quantity of it not predictable.

Mr. GALL. Therefore, not insurable.

Mr. LEWIS. Not insurable in a mathematical sense.

Mr. GALL. In the second place, in the President's letter he says, referring to the burdens of caring for the unemployed during a depression:

* * * If a State cannot bear the burden, the United States must be prepared to do so and to collect revenue for that purpose.

Now, I simply want to point out, in connection with the pending bill, that it collects no revenue for that purpose. There is no earmark on the money that will be raised by the bill before your committee, if it is enacted into law. That money will be taken into the General Treasury of the United States; it will be spent on an "if-and-when" basis, and it might just as readily go for rivers and harbors, for instance, as anything else. There is nothing that sets that aside and makes it a fund to which the unemployed people in this country can look in time of a depression. Personally, I do not think it should be; I do not think it is the primary duty of the United States Government to raise money for that purpose. You will note I say "primary duty." At the same time, I do not think there ought to be any illusions about this bill that is before your committee. It does not raise money for the purpose of taking care of the unemployed during a depression of any kind.

Now, Mr. Chairman, I have a great deal of confidence in this committee. I do not believe it is necessary for us to come here and

rely simply on technical arguments, or arguments as to the constitutionality of this legislation. I am convinced, under the decisions of the court, which this committee ought to take into consideration, that the bill is invalid; but I am also convinced, if we consider it purely on the basis of the equities of the case, the burdens to be imposed by this bill, how they will be distributed, the nature of the payroll tax as such—in other words, the general effects of the operation of this legislation—that the committee would, after mature consideration, abandon the bill.

Mr. WEST. You are going to indicate the nature of the constitutional argument, are you not?

Mr. GALL. I am, sir.

Mr. WEST. That is what I thought.

Mr. GALL. Now, Mr. Chairman, if I may, I will proceed with a somewhat orderly presentation of the material that I have here. Of course, I will be glad to be interrupted at any time you have a question you want to ask.

I listened with great interest to the testimony of Senator Wagner, joint sponsor of this bill; because I felt his knowledge of and participation in investigations made by direction of the United States Senate on this subject had equipped him with a great body of information which he would undoubtedly give to your committee for its use. I am surprised that he failed to give you the benefit of some of the most valuable data ever gathered by an official body.

On May 3, 1928, the Senate adopted a resolution directing its Committee on Education and Labor to appraise and make available to Congress information with respect to the various systems for the prevention and relief of unemployment in foreign countries, as well as such private systems as were in effect in the United States. Senator Couzens, of Michigan, reported to the Senate as chairman of the committee on March 4, 1929. (S.Rept. 2072, 70th Cong., 2d sess.) It will be noted that the inquiry covered a period of nearly a year. The committee included some of the most distinguished Members of the Senate. Six of them are still Members—Couzens, Borah, Metcalf, Copeland, Walsh of Massachusetts, and Sheppard. In its report, the Senate committee said, at page 9:

We think it is generally agreed by the witnesses that at the present time the following conclusions would be drawn from the evidence:

1. Government interference in the establishment and direction of unemployment insurance is not necessary and not advisable at this time.
2. Neither the time nor the condition has arrived in this country where the systems of unemployment insurance now in vogue under foreign governments should be adopted by this Government.
3. Private employers should adopt a system of unemployment insurance and should be permitted and encouraged to adopt the system which is best suited to the particular industry.

Mr. LEWIS. Who signed that report, Mr. Gall?

Mr. GALL. I have the report itself with me.

Mr. LEWIS. Do you remember the names? Do not take the time, if you do not.

Mr. GALL. Yes; I read you the list of Senators, I think, who are still in the Senate, who signed that report. Senator Couzens was chairman.

Mr. LEWIS. Just proceed.

Mr. GALL. I would like to digress just a moment at this point, because this brings up a matter you asked about a moment ago. You asked Dr. Todd why it was that private insurance companies of the United States had not gone into the field of unemployment insurance. Now, it is almost a coincidence, as to one of the reasons they have not gone into the thing. In 1930 and 1931, some of the large insurance companies, including the Metropolitan, which held charters under the State government in New York, went to the Legislature of New York and asked to be permitted to write unemployment insurance. You will appreciate, of course, that the old-line insurance companies cannot write unemployment insurance, but only such types of insurance as they are authorized by their charters to write. In 1931, the Legislature of New York passed a bill to permit private insurance companies to experiment with this type of insurance. That bill went to Governor Roosevelt, the present occupant of the White House, and he vetoed it. Now, I think the committee ought to have that information, because it is a coincidence in connection with this subject. One reason private insurance companies are not writing unemployment insurance today is that the bill which would have permitted them to do so was vetoed by President Roosevelt when he was Governor of New York.

Mr. REED. Did he write a veto message?

Mr. GALL. He did write a memorandum on the subject. I tried to get it for this committee meeting. I do not have the complete memorandum, but the date was April 14, 1931.

Mr. LEWIS. You can submit it later, Mr. Gall.

Mr. GALL. Yes, sir; I will be glad to put in the record some of the reasons which he gave. It was a one-page memorandum veto which he sent to the legislature.

Now coming back to this report made by the Senate committee, of which Senator Couzens was chairman—

Mr. REED. Do you remember, in substance, the main reason or major reason he gave for vetoing it?

Mr. GALL. I do remember distinctly one reason he gave for vetoing it. I do not want to create a false impression about his reasons for doing so, because I do not have the document before me, but the concluding reason which he gave was that the State Federation of Labor in New York opposed the bill. That is in the veto message. I may say also that at that time I heard a good bit of discussion among manufacturers about that thing, because they were anxious to see whether so-called "unemployment insurance" had any actuarial basis and they were perfectly willing to see the insurance companies experiment in this field. But the fact is a great many people believed that the insurance companies would finally report it had no actuarial basis and that is one reason they were not permitted to experiment, as it were, with unemployment insurance as applied to the thing we are really talking about.

This Senate committee, of which Senator Couzens was chairman, proceeded on page 11 of its report as follows:

Whatever legislation is considered on this subject, your committee is convinced should be considered by the States. The States can deal with this subject much better than can the Federal Government.

And on the final page of its report, the committee reiterated its position in the following language:

Insurance plans against unemployment should be confined to the industry itself as much as possible. There is no necessity and no place for Federal interference in such efforts at this time. If any public insurance scheme is considered, it should be left to the State legislatures to study that problem.

Now, one of the features of your bill, Mr. Lewis, which I think is absolutely unsound, is the feature which says that no State law shall be approved under it which allows an employer to insure his liability with any private insurance company. That feature alone disqualifies the Wisconsin act, because in Wisconsin they not only can but are expected to insure their liability. The Wisconsin act, as you know, is an act modeled largely on the reserve system.

Mr. LEWIS. Mr. Gall, this question is asked by me in utter innocence: Why should an employer with a definite pay roll wish to insure the payment of a percentage of that pay roll? Is the question clear to you?

Mr. GALL. Yes; it is perfectly clear to me and I am glad you asked that, Mr. Chairman. You understand that under the reserve system, it is not an insurance system, because it is confined to particular companies, or a particular group of companies, and the theory is they set up a reserve for this purpose—for the purpose of taking care of their unemployment.

Mr. LEWIS. Do they set up reserves for taxes—for the year's taxes?

Mr. GALL. Surely they do; but, in the case of taxes, for the main part, you have a predictable item.

Mr. LEWIS. Have not you given a thoughtless answer, Mr. Gall? Does the company this year set up a reserve for the payment of taxes next year?

Mr. GALL. Some companies do; some do not. Many companies do not operate their books on a reserve basis at all. Some companies do; yes, sir. But the point I am making is this—

Mr. LEWIS. Would they go to the point of insuring it?

Mr. GALL. Mr. Chairman, I stated I thought the provision in your bill was unsound that would not permit the employer to insure his liability. Let me point out why I say that. What the employer is doing is agreeing that in a certain contingency he will pay his employees, his unemployed ones, certain benefits. Now, is it not to the interest of the employees that they should have an insurance company to look to, rather than simply to look to their employer? When Mr. Epstein, who supported your bill, was before your committee, he said that he called the Wisconsin system, under which you had individual employer reserves, I think he said an "if-and-maybe plan." That is, if the employer was solvent when the unemployment occurred, maybe the employee would get the money, or something like that. Now, is it not better that the employees should have an insurance company to look to in a case like that? Is it not much more likely that the insurance company would be solvent over a longer period of time than the employer? I submit that thought, because I think that provision of your bill is thoroughly unsound. I think it is intended—I do not know who drafted it, but I know enough of this subject to believe that provision is intended to keep private insurance companies from demonstrating a lack of actuarial basis for unemployment insurance.

Mr. LEWIS. If they want a public admission in that respect, they need only to read these hearings.

Mr. GALL. However, there is a general misapprehension outside of this committee, among the public at large, and I may say among many Members of Congress with whom I have discussed this subject—there is a general misapprehension about the subject of unemployment insurance and there is a general feeling that by use of the term "insurance" the thing has been dignified and made more respectable and put on a basis of certainty, which is not there.

Now, lest it be said that this comprehensive investigation made by the Senate, to which I referred, and the report are valueless, because made prior to the depression, let us proceed to consider a second investigation made upon Senator Wagner's motion by a select committee of which he was an active member. I was very much surprised he did not tell you what that committee discovered and what it reported, because he joined in the report there. Incidentally, I may say Senator Wagner at that time—it was in 1932, in the middle of the depression—did not agree with your position that Congress had any legislative power on this subject. He agreed with the committee that it had no power to deal directly with the subject. I will quote that in a moment, when I come to it.

On February 28, 1931, Senator Wagner introduced in the Senate a resolution (S. Res. 483) to create a select committee of three members, which should be authorized and directed—I mention this inquiry, because I think you ought to know—maybe you do, Mr. Chairman—that such a complete investigation of this subject was made by a qualified Senate committee, which reported fairly recently, so that some weight can be given to its findings and to its report—this committee should be authorized and directed—

to make a general study of the unemployment insurance systems in use by private interests in the United States and by foreign Governments, with a view to determining (1) the manner in which such systems were instituted and are now being operated; (2) the cost involved and the results achieved under each such system; (3) the relief, if any, afforded by each such system during the economic depression in 1930; (4) the condition of each such system on July 1, 1931, with particular regard to the manner in which it survived the economic depression of 1930; and (5) the relative State, Federal, or private responsibility in connection with any such systems. The committee shall report to the Senate on or before December 7, 1931, the results of such study, together with its recommendations for necessary legislation.

That committee did not report by December 7, 1931, but its time was extended. How well did Senator Wagner's committee perform the task he proposed? It held hearings intermittently from April 2, 1931, to December 10, 1931. The hearings cover 654 pages. The scope of the hearings and the report indicate that the committee did its work well. It reported June 30, 1932, which, it will be remembered, was in the midst of the depression. The committee concluded that—

* * * the subject of unemployment insurance is not within the sphere of congressional action.

There could not be any statement plainer than that—

The subject of unemployment is not within the sphere of congressional action.

That is page 51 of the Senate committee's report which I have with me. And the only Federal legislation recommended was a deduction from gross income on the part of taxpayers for sums paid out

under unemployment insurance or reserve schemes. Senator Wagner filed a separate report agreeing with this recommendation.

That this recommendation was approved by and no doubt largely influenced by Senator Wagner is demonstrated by the fact that prior to the time of the report he had already introduced two bills designed to accomplish the purpose of the recommendation. Those bills were S. 5350, Seventy-first Congress, introduced December 15, 1930, and S. 5634, Seventy-first Congress, introduced January 9, 1931. He did not dissent from the legal proposition that the whole subject was otherwise removed from the sphere of congressional action.

The question may occur to some as to whether the special Senate committee, of which Senator Wagner was a member, having decided that Congress had no authority to directly enact an unemployment insurance law, gave any thought to an approach such as the one before your committee; that is, did the Senate committee give serious thought to reaching the desired result by indirection through the use of some power which the Federal Government does possess? The report of the committee discloses that this suggestion was fully considered by the Senate committee and was rejected. The committee reported as follows:

It may be contended that while Congress could not pass a workman's compensation act, directly applying—

They use the term "workman's compensation" I think inadvertently there, although there is something later which indicates they probably meant "workman's compensation" at that point.

It may be contended that while Congress could not pass a workman's compensation act, directly applying to all the employees of the companies within the scope of the plan and could not affirmatively require all such companies and their employees to contribute to life, disability, or unemployment insurance or old-age pensions, it might accomplish the same result by prohibiting interstate transportation of the products of companies which had not adhered to the plan. But this method was condemned by the Supreme Court in the child labor case, *Hammer v. Dagenhart* (247 U.S. 251), and it seems impossible to impose or to secure compliance with the detailed affirmative obligations essential to the success of the plan by the indirect method of prohibiting interstate transportation of certain products.

Again the committee recognized that it might be possible to circumvent the Constitution by appropriating directly from the Federal Treasury under a system of Federal subsidies. This suggestion also was rejected by the committee in the following language:

We are quite aware there is perhaps a way for Congress to circumvent the constitutional barrier. It has become not an uncommon practice over a period of years. It finds its justification in the welfare clause of the Constitution, and as a result the Federal Treasury has contributed to the building of State highways, provided aid for indigent mothers, to child welfare, and to many other forms of social service.

But whether in the exercise of the powers conferred by the welfare clause Congress could lawfully appropriate public funds for the benefit of a relatively limited few and could exclude particular groups in a given class, which it would be bound to do because of unsurmountable difficulties to be met in any attempt to make such funds of universal application, is open to very serious question.

Now, that is a very recent report of a Senate committee which made an extensive investigation into this whole subject of unemployment insurance, including the question of the relation of the Federal and the State Governments to the subject and they conclude, Senator Wagner joining, that that is the very limit to which the Federal Government

could go, falling short of any force, compulsion, or direct legislation; and that the most they could do was to encourage by a system of permitting a deduction from the income tax of those benefits actually voluntarily paid by the employers under State systems or under voluntary systems. The Senate committee then proceeded to make a recommendation, in which Senator Wagner concurred, as to the one form in which the Federal Government could constitutionally encourage the States and individual employers to adopt systems of unemployment insurance and unemployment reserves.

The theory of necessity for Federal action in this matter, apparently, Mr. Chairman, is that substantial uniformity of State legislation must be compelled by Congress in order to avoid competitive advantages and disadvantages to employers of particular States if there is a lack of uniformity. I think that is a fair statement of the practical side of it, that it is felt that there should be uniformity—I am speaking now of the arguments of the proponents—it is felt that there should be uniformity and that if you do not have a system going into effect about the same time in all of the States, some States will hold back and others will go ahead, and there will be competitive disadvantages between the States.

Of course, I do not need to recall to you, because I believe you were a Member of Congress at the time the first child labor law was passed, were you not, Mr. Lewis, in 1916?

Mr. LEWIS. Yes.

Mr. GALL. That was exactly the argument which underlay the first child labor law at that time, and I think this is interesting history and should be made a matter of record. At that time Congress was so much in doubt about its authority to deal with labor questions at all, with the subject of employment relations, that it referred the question to its Judiciary Committee. And you remember there was a very distinguished Judiciary Committee of the House at that time. It referred to the Judiciary Committee the question of whether Congress had any authority to deal with the subject of employment relations. Now I recall that to you because, if it has no authority in that field, it has none here. We are dealing here with employment relations. In fact, you stated during the course of this hearing, that you had to rest this tax on employment relations; that that is the only way you could reach it. I would like to read to you the question submitted to the Judiciary Committee of the House in 1916, and their response to it; because I think it has a very direct bearing on what we have before us.

Mr. LEWIS. Mr. Gall, may I ask this question: How long will it take you? Do you expect to conclude this evening?

Mr. GALL. Mr. Chairman, I would like to, frankly, if it is not going to be a burden on the committee, and I will rush along just as fast as I can. But I have some professional engagements tomorrow that I have been putting off with conclusion of this subject.

Mr. LEWIS. Very well; proceed.

Mr. GALL. I should regret very much not to give you some of the material I have here, because I think the record would be very incomplete without it, and I am very much alarmed, Mr. Chairman, by the statement you made this morning that it was the intention to close this hearing tomorrow. There has not been such an important

measure before this Congress, and the opposition to this bill—I am not saying you have cut them off; it may be there is some apathy toward it; maybe the full effect of it is not yet comprehended—but the opposition has not been heard except for an hour or two, and the record is very incomplete. As I indicated to you, in my opinion you have barely scratched the surface of the material that ought to be considered on this subject. In fact, one of the recommendations I shall make to you is that you avail yourselves of the material that has been collected by the Senate committees that have studied the subject, and it is very necessary as a basis for legislation that some more material be gathered in the light of the past 2 years of the depression.

Now, in 1916 the House submitted to the Judiciary Committee the question, as I have said—

Can Congress, under the commerce clause—

And the analogy is perfect between that and the taxing clause.

Can Congress, under the commerce clause, regulate directly or indirectly the conditions of female or child labor within the State?

A unanimous report was received on February 7, 1917, being Report 7304, Fifty-ninth Congress, second session. Here is the answer; it is summed up in this way. It is a rather lengthy report, but this is the conclusion of the committee:

It is not a debatable question. It would be a reflection upon the intelligence of the Congress to so legislate. It would be casting an unwelcome burden upon the Supreme Court to so legislate.

Now that was the unanimous conclusion of both Republican and Democratic members of the Judiciary Committee with reference to the first child labor law. In the face of that report, Congress passed the first child labor law, although all of the decisions were against it, and it went to the Supreme Court which by 5 to 4 decision invalidated it.

Now if the principle is sound that Congress may use its taxing power to compel uniformity of State legislation in the matter of employment insurance, why may it not do so in every other field with respect to which there are competitive differences? I contend, if you can use the taxing power here to compel uniformity of legislation on this subject, that you can use it under the Constitution to compel uniformity of State legislation on any other subject:

The workmen's compensation laws of the States are not uniform. As a matter of fact, three States even today have no workmen's compensation law. Why not compel uniformity in that field? Less than half the States have passed old-age pension laws. Why not compel the other States to pass them and at the same time compel uniformity of the laws already passed? Surely the tax burdens involved in those States, which have already passed old-age pension laws, place all its citizens at a disadvantage with the citizens of other States who are not so taxed.

A few States have a form of minimum wage law. It is not a compulsory law, but they have a form of minimum wage law. Why not pass a Federal tax act to compel all other States to follow suit? Why not at the same time compel uniformity in State laws regulating hours of labor for women and minors, and for male adults in hazardous industries?

There is complaint about the competition of State governments one with another in the matter of levying taxes on gasoline, tobacco, soft drinks, and so forth. Why not pass a Federal statute which compels similar levies on the part of all the States? In this connection it should be pointed out that if a Federal tax which compels uniformity of State action is valid, no objection can lie to it by reason of the fact that it compels some States to lower their standards rather than to raise them. That is, you can limit by the indicated method the amount of revenue which a State could raise from a certain source if this principle is sound.

There are other matters of State legislation, such as the matter of the incorporation laws. For instance, Delaware is very severely criticized by a great many people as the "Reno of corporations." Now a lot of people think a uniform incorporation law might be a good thing. In fact, the American Bar Association has been considering that for a long time and has approved a uniform incorporation law for State adoption. Why not compel uniformity in that respect? And you can go on ad infinitum with respect to State laws which are not uniform and which give superior advantages or very great disadvantages to the citizens of some States, and some uniformity would be better perhaps in some cases; but the question is whether the Federal power is going to be exercised to make uniformity in all of those cases.

The mere suggestion as to some of the fields which might be occupied by the Federal Government by indirection and through a pretended exercise of its taxing power should be sufficient to indicate the implications of the pending bill.

We may well ask whether competition is to be abandoned and uniformity compelled throughout the whole field of business and industry. Before embarking on that program, however, it is well to remember that while Congress might use its taxing power to compel uniformity with respect to a great many elements of cost, there are certain other advantages which cannot, for the most part, be removed by legislation. Among these are proximity to raw materials, to markets, to an adequate supply of skilled labor, or to water power, and advantages due to superior productivity of soils, access to inland waterways or seaports, and advantages in transportation rates. When these factors in competition are considered, the utter futility of an attempt on the part of Congress to overcome the advantages of competition by compelling uniformity, in matter of social legislation, becomes apparent.

Now, Mr. Chairman, take the case of Tennessee, for instance. There is very little to attract many of the large corporations to Tennessee, except the fact they are getting out from under certain burdensome regulations and legislation in some of the more highly industrialized States, and that they are getting close to the source of the kind of labor that they want, if they can utilize farm labor, for instance, part of the year.

We hear a lot about seasonal unemployment. It is a funny thing that the emphasis is always on the word "unemployment" and very little is said about the term "seasonal employment", such as these companies give to the farm population. The farm income is very low; unfortunately so. The manufacturers wish it were much higher. This partial or seasonal employment that is given by many of these companies to farm people is a very substantial addition to their incomes. It is a thing that they need.

(Mr. Gall asked that the following statement be inserted at this point in his remarks:)

RURAL INDUSTRIES SUPPLEMENT INCOME ON FARMS, NEW SURVEY SHOWS

Farm people employed by 123 factories in 15 Eastern, Southern, and Central States received \$1,800,000 in wages in 1931; 5 of the factories paid \$22,000 to farm people for work at home, such as chair caning, and the 123 factories paid out approximately \$1,100,000 for raw farm materials used in manufacturing products, according to a survey now being completed by the Bureau of Agricultural Economics.

This survey is designed to gain some measure of the income of farm people apart from that received from farming. The 1930 census disclosed that approximately 1,500,000 people living on farms are employed in other lines of work; conversely that nearly 450,000 urban people are employed in agricultural production. The outside occupations of people who live on farms range from banking to rail-roading. The census reported that the farm population included 11,000 persons classed in banking and brokerage activities; 11,000 in insurance and real estate; 18,000 in filling stations and automobile agencies; 24,000 public servants; 225,000 professional people; 231,000 people engaged in the transportation industry.

The 123 factories included in the Bureau's survey are located in comparatively small towns or in the open country. Of a total of 18,805 employees in these factories, 4,174 were farm residents of whom 482 men were active farm operators and the remainder members of farm families.

The factories included textile mills, paper plants, canning factories, meat packing plants, machine shops, leather factories, clay and glass industries. Some of the factories are owned entirely by farm people, some are financed in part by farm people. More than half the factories surveyed are in North Carolina, Pennsylvania, and Virginia; there is a good representation in West Virginia, Massachusetts, and New York, and the remainder are scattered generally throughout the area covered by the survey.

The Bureau reports that most of the farmers who had invested in the various industries were receiving some income on their investments; and that the existence of the factories afforded an expanded outlet for locally produced fruits, vegetables, eggs, poultry, milk, and other farm products. Most of the farm people working for wages in the factories were receiving from \$600 to \$1,000 in wages per worker; there were many part-time workers who received \$50 to \$400 a year, and a few farm people were factory superintendents who received around \$3,000 a year.

The Bureau reports that outside employment of farm people is especially pronounced in areas where small farms are numerous and where agriculture is handicapped by unfavorable natural resources. Its survey excluded the subsistence type of farm where gardening is an adjunct of industrial employment, and included only people living on farms as defined by the census. A survey in Knott County, Ky., made in 1930, revealed 138 local industrial enterprises engaged in by farm people in that area, principally handicrafts, saw milling, grist milling, coal mining, and stone quarrying. In a report on the Knott County survey the Bureau says that "small-scale industrial activities and handicraft work are now important sources of income for farm families in many places where soil, topography, and relative isolation preclude a profitable system of farming. Agriculture in these sections of restricted opportunity is largely a matter of subsistence farming; that is, the production of as many of the necessities of life as can be raised on the individual farm. Only a little surplus to sell for cash is possible, so the family must turn to other kinds of work for its cash income."

Some of the farm people interviewed in the Bureau's current survey said that were it not for the income received from outside industrial work they would have to quit farming; others that the local industrial employment kept young people on the farm. Some complaint was voiced that wages were too low, but the consensus was that the farm people employed even in part-time industrial work were better off, financially and socially, than if they lived in the city.

We talk about regularization of employment. Regularization of employment, if logically carried out, practically does away with these peak periods of production, whereas farm labor is utilized by many companies in many communities,—I am thinking particularly of the situation in Tennessee, which I happen to know of. There would be

no reason why these companies should go to such States as Tennessee if the conditions of competition were equalized by a Federal act, or even if the major conditions of competition were equalized by a Federal act. You know what they would do. All of these large companies, naturally, would concentrate in New York, or New England, or in the vicinity of Chicago and other large cities; because then the only advantage they have would be in being close to the market. Of course I know in some instances they would go close to their raw materials; but, in the main, they would go close to the markets. But if you set up the principle of equalizing the cost of production, so as to protect the manufacturers and merchants of one State against the manufacturers and merchants of other States, you are going to drive industries to the centers of population into and near the large cities and out of the predominantly agricultural States where they have gone in recent years. They just won't go there any more, because there won't be any reason for them to go there.

Let me recall to you that 14 Southern States have recently formed what they call the "Southern States Industrial Council." It has just one purpose and that is to get the proper differentials for labor in those 14 Southern States in N.R.A. codes. Now, they believe they are entitled to a differential. In other words, they do not believe their labor cost ought to be the same as it is for the rest of the country, and they can make out a good case for it. Now, are we to say that the labor cost ought to be equalized, so as to avoid disadvantageous competition? I do not see how a Member of Congress from one of those 14 States could support legislation based on the principle in your bill and then turn around and ask for a wage differential in favor of the South by the N.R.A. I just do not see how it is consistent, at all.

But let us look at another angle of this situation. While Congress may use its taxing power to compel various forms of social legislation on the part of the States and may thus tend to defeat the advantages and disadvantages of competition as between our own citizens, it necessarily, by the same action, subjects all our citizens to a further disadvantage in foreign competition. I do not think enough thought has been given to that general subject, Mr. Chairman, that when you impose additional arbitrary costs on the manufacture of goods in this country, you are by the same token making it very much more difficult for our manufacturers to compete in foreign fields and for them to compete in their home market with the goods of foreign origin which come in here.

So it seems to me the effect of compelling competitive equality among the States is to compel competitive inequality in matters of foreign commerce, if it is carried to its logical conclusion. I do not say this bill alone will do that; but we cannot consider this bill in a vacuum. Industry today is facing a number of bills here on the Hill, all of which are of the same sort, and we have a right to look at them as a whole; because none of them is going to be destructive of industry in itself, but, taken as a whole, they are going to impose a very serious burden on the industries of the United States, which are now trying to come out of the depression.

Our tariff situation is already fraught with serious dangers; our industries have suffered severely from the effects of depreciated foreign currencies; the duties fixed in the Tariff Act of 1930 have been

greatly affected by the depreciation of foreign currencies. Remedial action provided for by Congress in the National Industrial Recovery Act has been totally ineffective. If we now impose additional arbitrary costs on American industry, we will further handicap our domestic producers, both in competing with foreign goods in our home market and in attempting to compete in foreign markets.

Now to come directly to the principle of the pay-roll tax, Mr. Chairman. The pay-roll tax is one of the most inequitable taxes that can be imagined. I have given a considerable amount of study to that; I have consulted a number of people about different forms of taxation, and I have concluded the incidence of this tax and its operation, and the points from which the money will be collected, make it a very inequitable tax. In your recent dissenting report as a member of this committee on the revenue bill, you argued very strongly for the principle of taxing according to ability to pay, and I want to point out to you that the pay-roll tax absolutely ignores the principle which you there argue for; because the pay-roll tax is a tax on an operation conducted at a loss just exactly as it is on an operation conducted at a profit, and you collect just as much from the man losing money as you do from the man making money, by the pay-roll tax. I want to enumerate some other very obvious objections to the pay-roll tax.

Mr. LEWIS. That is assuming the employer is the final payer of the tax and it does not go into the price of the product.

Mr. GALL. All right.

Mr. REED. Just a question there: There are reindustries, are there not, Mr. Gall, that cannot pass the tax on to the consumer?

Mr. GALL. Why, there is no question about it. I will make this statement, Mr. Chairman: It is true of this tax, as it is true of every other tax that is imposed on industry, that where it can be passed on it is passed on. I will make that statement. That is true, that where it can be passed on—we all know that—it is reflected in the cost of the commodity that the consumer must pay. But I want to tell you that in a large majority of cases this pay roll tax cannot be passed on. I will elaborate on that. We have got to approach this pay-roll tax from two standpoints—

Mr. LEWIS. But where are the industries, Mr. Gall? The facts there are interesting, but what are the industries, now?

Mr. GALL. I will give you offhand—

Mr. LEWIS. Speak of commodities, first.

Mr. GALL. I regret I cannot give you as much information on that point as you undoubtedly would like to have, but I will give you an illustration. I will take chewing gum as an illustration. Chewing gum is made to sell for 5 cents a package. It is one of those commodities that is sold on a price basis. You cannot jack that price up to reflect this cost. If you are on the border line and make chewing gum, you still have to sell it for a nickel a package, and you have got to absorb this tax, and you cannot pass it on because the consumer won't pay it.

It is just like the Ingersoll dollar watch. You remember the Ingersoll Watch Co. had to go out of business; it went bankrupt. Why? Because they had built up their sales on the basis that this was a dollar watch and, when we got into the period of inflation, right after

the war, they could not make that watch and sell it for the size dollar we then had, and they had to go out of business.

There are lots of industries like the chewing gum industry. You take the whole line of stuff sold in the 5 and 10 cent stores: When you impose a pay-roll tax on an industry making goods for that trade, that tax cannot be passed on; it has to be absorbed. It is price goods, and the public won't pay more for them. Practically no goods are sold for a low price [5, 10, and 25 cents], where the tax can be passed on.

Mr. WEST. This would apply, then, principally to the manufacturers of consumer goods?

Mr. GALL. Pardon me?

Mr. WEST. That is, the ordinary articles that enter into immediate consumption; it would not apply to the manufacturers of capital or durable goods?

Mr. GALL. I will show you in a minute why that is not true, quite.

Mr. WEST. I am asking you.

Mr. GALL. No.

Mr. WEST. I am not saying it is a fact; I am asking you.

Mr. GALL. No, it is not. I have developed that here, and I believe I can conserve your time if I proceed.

Mr. WEST. As a matter of fact, Mr. Gall, the manufacturers of consumer goods employ a smaller percentage of employees, I think 35 percent—

Mr. GALL. I have those figures here.

Mr. WEST. Whereas the manufacturers of capital goods, durable goods, employ about 65 percent of the wage earners in the factories.

Mr. GALL. The figures are very interesting; I wish we had the time to go into them.

Mr. WEST. I do not want to interrupt you too much, because I know you have a lot of material there.

Mr. GALL. I have. It is in fact true that today the bulk of the unemployment is in the heavy-goods industry.

Mr. WEST. It is also true that the heavy-goods industries employ the great majority of the laborers at any time, is it not?

Mr. GALL. A small majority; yes.

Mr. WEST. Is it not a fact it is 65 percent?

Mr. GALL. No. I have the exact figures here, if you want them. The fact is all employment and gainful occupation is divided in two classes: (1) Those that go into products and (2) those that go as services. That is, you have a very large body of people who do not make things at all but merely render services. That is about half and half—those who are engaged in production and those who are engaged in rendering services.

Mr. WEST. There is a third group, which you can make two groups out of, otherwise known as "heavy goods and consumers' goods."

Mr. GALL. That is right. Then when you get into the manufacturing field and divide it into two groups, more than half are in the heavy-goods industry, where the bulk of unemployment lies today, it is true. I want to develop that point; because I want to show you why it is true today, although it might not normally be, that most of this tax cannot be passed on even by the durable goods people. Furthermore, I do not care which horn of the dilemma you take about

this pay-roll tax, whether it can be or cannot be passed on. If it can be passed on, it will be; but, if it is, I am going to show you in a moment that the suit of clothes you have on, or that I have on, carries this tax multiplied seven times. It is a cumulative tax; that is one of the real vices in it. From the time the farmer produces his cotton, if it is a cotton garment, until the man buys the garment—I am speaking of the men's clothing industry, because that is the illustration I have in mind—until the time that garment is sold to the ultimate wearer, this tax multiplies seven times.

Mr. LEWIS. Is not there a cumulative set of employees to match, as you go up, that profit?

Mr. GALL. Yes; but that does not help the consumer when he pays this tax seven times. That is the vice of this tax.

Mr. LEWIS. I think the answer to that is the question of duty. The consumer formerly bought his coal and did not pay for the human life and the human disabilities involved in its production; he was not paying for his coal. He is paying for it now. If there is a duty here and the industry fails to regularize to meet this obligation in a degree, then I think the rest of the objection falls; because the consumer should be willing to pay the inherent costs in the commodity he buys.

Mr. GALL. Now, Mr. Chairman, I agree with that argument, but I want to point out that this Congress has already rejected the general sales tax, that is, a manufacturer's excise tax on all commodities. It rejected it because it would be passed on to the consumer. Now, the theory of this pay-roll tax is, it is going to be passed on to the consumer. I want to show you this is, therefore, in its effect a sales tax, but is not as sound a tax as a general sales tax; because it is selective, because it is hidden, because it is cumulative. So that it has the vices of the sales tax, but none of the virtues.

It may be argued that many foreign countries have unemployment insurance and other social legislation which enter into costs of their products and that American industry suffers no disadvantage in competition from the imposition of similar costs. This, however, ignores the plain fact that the real wages of our workers, which is another way of saying their standard of living, far exceed those of most other countries and that this is presumptive evidence that many of these costs in foreign countries tend to be subtracted from the real wages paid the workers. Perhaps, therefore, after all, there is something significant in the use of the term "excise" as applied to a pay-roll tax such as is proposed here. The word "excise" means literally "cut out of." There is a fairly general belief that the cost of a pay-roll tax, in large measure, will be cut out of the pay roll itself and this is inevitable if the industry is one which is unable to absorb the tax or to pass it on to the purchasers of its goods.

It would take a strong sense of humor to suggest that the employer might absorb this additional tax through further economies in other costs of operation. Several years of depression and the tremendous additional costs imposed through the N.R.A. have exhausted the ingenuity of most business managers in the matter of discovering additional possibilities for economizing.

The pay-roll tax is one of the most inequitable taxes that can be imagined. In the first place, the exemptions of this bill are such as practically to make manufacturers and merchants, as such, legally liable for the burdens of unemployment, although most students,

including those who favor unemployment insurance, admit that the employer cannot, except within very narrow limits, exert any control over unemployment. He can no more prevent unemployment than he can control the likes and dislikes of the consuming public or compel them to trade with him, or can anticipate technological changes which may make his entire product unmarketable.

This bill exempts employers of less than 10 persons. According to the National Industrial Conference Board, of the 210,959 manufacturing establishments in the United States in 1929, 74.3 percent had under 20 employees. I do not think that is generally appreciated.

Mr. LEWIS. What percentage?

Mr. GALL. 74.3 percent of the manufacturing establishments of the United States in 1929 employed from 1 to 20 men.

Mr. LEWIS. Now, have you any statistics there showing the number that employed from 10 up?

Mr. GALL. No, sir; unfortunately. I tried to get them before I came to this hearing. There is an estimate, but there is no census.

Mr. LEWIS. What are the divisions; have you got the divisions there?

Mr. GALL. 1 to 20; 21 to 50; 51 to 100; 101 to 500; 501 to 1,000, and then there are some figures beyond that.

Mr. LEWIS. In the first division, up to 20, it covers 70 percent?

Mr. GALL. 74.3 percent in number.

Mr. LEWIS. In manufacturing?

Mr. GALL. In manufacturing; yes, sir.

Mr. REED. How many manufacturers did you say?

Mr. GALL. There were, in 1929, 210,959 manufacturing establishments in the United States, according to the Census Bureau, and 74.3 percent in number of those establishments employed twenty men or less. I point that out for this reason: You are exempting employers of less than 10 persons. That may seem practical in this bill to do that; but if the theory of the National Industrial Recovery Act, of requiring every employer, irrespective of size, to accept the burdens of the act, in order to prevent less than 10 percent of employers engaged in practices which demoralized markets, is sound, then what shall be said of the principle for which this bill would be a precedent, of leaving a tremendous number of small employers outside the fold to enjoy the advantage in competition which it is the purpose of this bill to prevent as between the industries and trades of the various States? Is it not better for an employer to have the disadvantage of superior competition from another State than the competition of a large number of small competitors in his immediate vicinity?

Mr. LEWIS. Mr. Call, construing the bill, would the State legislature be inhibited from making employers of a smaller number liable under the State legislation?

Mr. GALL. Yes, sir; it would under your bill. I will explain that. I notice you are about to take issue with that, Mr. Elliott?

Mr. LEWIS. It is a matter that ought to be cleared up.

Mr. GALL. I think if Mr. Elliott knows better, he ought to say so. I have the bill here and my recollection is that is not listed in the qualifications of State acts for certification; but that is in the preliminary part of your bill, which says what employers are covered.

If that is true, a State cannot vary that portion of your bill. I may be wrong about that.

Mr. ELLIOTT. You are wrong; yes.

Mr. GALL. I will be glad, if I am wrong, to be corrected.

Mr. ELLIOTT. Those definitions are for the purpose of defining who shall be taxed by the Federal Government; not for the purpose of defining who shall be considered employers under any State law that may be passed. A reading of the bill, I think, will show that.

Mr. GALL. You mean these other people would not be entitled to credit?

Mr. ELLIOTT. If they did not contribute anything, how could they get a credit; if they do contribute, they would not be entitled to a credit. They would not be taxed, so how could they be entitled to a credit? They would not have any tax to get a credit against.

Mr. LEWIS. That might be an extra reason why the State might enter, if it chose, or decline to enter in the Federal act.

Mr. GALL. Could a State, for instance, include agricultural labor and farmers under this bill?

Mr. LEWIS. Not under this bill, but it could under its own legislative powers.

Mr. GALL. I will come back to that, if I may, later. I want to make the observation that to make the inclusion of agriculture under this bill—

Mr. WEST. Did you give the figures of the number of employees that would be involved in this 74 percent of the concerns?

Mr. GALL. No, sir.

Mr. WEST. That was the figure you asked for?

Mr. REED. Yes; that is what I asked for.

Mr. GALL. The number of employees?

Mr. REED. I asked for the number of establishments.

Mr. GALL. That is what I thought.

Mr. WEST. You said there were 210,000 establishments and 74 per cent employed 20 or less?

Mr. GALL. Yes.

Mr. WEST. And the average is 10, of those establishments under that.

Mr. GALL. I see what you mean.

Mr. WEST. Suppose you have 150,000 establishments that employ 20 or less, and the average is 10 per establishment, you would have 1,500,000 employees out of some 48,000,000. What I am getting at is this: Now, the bulk, while it seems large, yet really you have about 2 percent of the employees.

Mr. GALL. I am not going, of course, to the number of employees, but the number of establishments.

Mr. WEST. And, using the number of establishments, you are reaching 98 percent of the employees of those establishments affected by the bill.

Mr. GALL. But insofar as competition is concerned, you do not compete with employees; you compete with establishments.

Mr. WEST. But take establishments that form the basis of industry, if this bill applies to industries employing 98 percent of the labor, I think we could eliminate 150,000 establishments of the minor ones. What are the facts?

Mr. GALL. I will say this: That argument has been presented many, many times at the N.R.A. that it is the very small manufac-

turer who has given the most trouble in the enforcement problem and application of the codes of the N.R.A. I know that can be borne out.

Mr. WEST. They are exempted under this.

Mr. GALL. They are exempted under this which means they are free to go ahead with their competition, without the burdens of this bill. That is what that means.

Mr. LEWIS. Now, let us get the statistics right, if I have them wrong.

Mr. GALL. All right—that 210,959 manufacturing establishments in the United States; in 1920—

Mr. LEWIS. Employed how many?

Mr. GALL. The total number of employers employing—

Mr. LEWIS. Yes.

Mr. GALL. I have not that figure exactly—

Mr. LEWIS. The employers employing not more than 20—

Mr. GALL. Not more than 20 persons.

Mr. LEWIS. Employ what percentage of the total employees?

Mr. GALL. I cannot give you that figure.

Mr. LEWIS. Oh, I misunderstood you, then.

Mr. GALL. I gave you the percentage of the number of establishments which employed 20 men or less.

Mr. LEWIS. We can get that cleared up.

Mr. GALL. Yes. Now, the present Congress has emphatically refused to enact a sales tax for the purpose of providing the revenues needed by the Government. When congressional leaders in December 1932 quoted President-elect Roosevelt as favoring enactment of a sales tax, the President elect let it be known that he was "horried"—he used that term. The proposed pay-roll tax is not only a sales tax, but, in addition, is a production tax, a processing tax, and a distribution tax. It has all the vices and none of the virtues of a sales tax. It is selective as to the classes of business against which it is to be assessed, and hence, is discriminatory. It is cumulative; it applies over and over again on every operation from the production of raw materials to and including the final sale of a product to the ultimate consumer. It is levied upon operations conducted at a loss as well as those conducted at a profit, and, finally, it does not even have the merit of a retail sales tax, which is, that the purchaser knows that he is paying the tax. The pay-roll tax is a hidden tax and each successive purchaser of a commodity pays the tax if it can be passed on under the circumstances of the particular transaction.

Mr. LEWIS. Have you an alternative tax in mind, Mr. Gall?

Mr. GALL. An alternative tax?

Mr. LEWIS. Supposing the bill to be desirable?

Mr. GALL. I do not want to anticipate the conclusions I have reached about this thing, but I will say to you I do not think you can impose a new form of tax under this bill and have a valid bill. I think you can do what the Senate committee recommended and what Senator Wagner proposed in his original bills; you can give credit against income-tax payments, and I think that is eminently fairer.

Mr. LEWIS. That would mean raising the income tax correspondingly.

Mr. GALL. All right, sir; it might mean raising the income tax correspondingly in order to give the credits; but, in the first place, if

you adopted that system instead of this, you would have this thing on the basis of true encouragement and cooperation to the States, rather than compulsion, which this bill employs. In the second place, you would have collected the tax from the people that made the money and could afford to pay it. In other words, the income tax is a sound tax—it does come from people who can afford to pay it. But this tax does not.

Now, you were told by the Secretary of Labor that the 5 percent pay-roll tax is equivalent to less than 1 percent of the total cost of any article manufactured. That is my recollection of her testimony, as I sat here and heard her—that the 5 percent pay-roll tax, if spread out, would average less than 1 percent.

Mr. LEWIS. That did not take into account previous organizations.

Mr. GALL. It did not take into account the cumulative nature of the tax at all.

Mr. LEWIS. No.

Mr. GALL. Furthermore, even if it did take that into account, it is not a correct statement, and I will show you why. That statement, unfortunately, displays a woeful lack of information as to manufacturing costs. It also completely overlooks the point which I have already made—that this 5 percent pay-roll tax is cumulative and is therefore multiplied many times.

What is the fact about the relationship of the 5 percent pay-roll tax to the final cost of an article? I am not now speaking of the price at which an article is sold to the ultimate consumer; I am speaking only of the actual additions to cost of manufacture due to the cumulative imposition of the pay-roll tax. If an article which it costs \$1 to make has a 50 percent labor cost in it, the pay-roll tax is equal to 2.5 percent of the total cost. Therefore, for her statement to be correct, it is obvious: First, that the labor cost must be less than 20 percent of the total cost of the article. If the labor cost is 50 percent, the percentage is 2.5; therefore, in order to bring it down to 1 percent and make her statement correct, the labor cost, the ratio to the total cost of the article, must be less than 1 to 5; that is, it must be less than 20 percent. Second, that the pay-roll tax must be levied at one point only and must not be cumulative.

Now, what are the facts about the proportion of labor costs to total costs in the field of manufacture? I have here a table of commodities; it is detailed and interesting and pertinent to what we have under consideration here. It was published by the Standard Statistics Co., Inc., a well-known statistical service organization, on March 12, 1934—in other words, just a couple of weeks ago. It was published for the purpose of showing what companies offered attractive investments at the present time on the New York Stock Exchange, and was published for the purpose of showing which ones had high labor costs in their product and which ones had low labor costs in their product; because the point that they were making was that, the lower their labor cost in proportion to the total cost, the more attractive as an investment, because the less they were affected by the N.R.A. shortening of hours, raising of wages and other things which might raise their labor costs. Now, they made up these figures for 43 industries.

Mr. LEWIS. Manufacturing industries?

Mr. GALL. Manufacturing industries, and in only 15 cases out of the 43 was the Secretary of Labor's observation correct. And, in those 15 cases, it is not correct unless you assume that she meant to discount the cumulative feature of this tax.

Now, the percentage of wage costs, that is, labor cost, to total cost ran up as high as 68.9 percent in one case. The average labor cost was well above 30 percent and, as I have said, in only 15 of the 43 cases was it less than 20 percent.

Mr. LEWIS. In the last Census of Manufactures that I recall, the percentage was 22.45 of the wholesale value of the product of manufactures generally. That was some years ago.

Mr. GALL. When you say "wholesale value", do you mean wholesale selling price?

Mr. LEWIS. The wholesale price reported in the Census of Manufactures.

Mr. GALL. Because, if you are talking about price at which it is sold the ratio is quite different.

Mr. LEWIS. It is the wholesale value computed in that report, of the total manufactured products.

Mr. GALL. If it is wholesale value in the senso of selling price, that might be correct; if it is wholesale value in the sense of the actual cost of the commodity at the point where it is manufactured, it is not correct.

Mr. LEWIS. Perhaps I am not justified in using the term "wholesale." I think now this was the expression—"value of products at factory." I spoke of that as the wholesale value.

Mr. GALL. That really goes to the price rather than cost; the value goes to price rather than cost.

Mr. LEWIS. I would take it to be so.

Mr. GALL. I would like to submit this table:

Relative labor costs

	Percent wages to total costs		Percent wages to total costs
Motion pictures.....	68.9	Locomotives.....	27.3
Car construction (railroad).....	56.2	Auto tires.....	26.7
Aircraft.....	54.2	Refrigerators.....	26.0
Boots and shoes (rubber).....	52.8	Aluminum.....	25.4
Rayon yarn.....	51.4	Gas (manufactured).....	25.1
Printing and publishing.....	46.1	Leather.....	22.9
Shipbuilding.....	45.8	Paper.....	21.3
Glass.....	41.1	Automobiles.....	18.4
Cast iron pipe.....	40.3	Boots and shoes.....	16.5
Carpets and rugs.....	38.5	Tobacco (all products).....	15.6
Agricultural implements.....	37.2	Canning.....	14.5
Cotton goods.....	35.3	Paints and varnishes.....	13.1
Knit goods.....	34.8	Coke.....	12.0
Cement.....	34.8	Cereals.....	11.6
Rubber (excluding tires and shoes).....	34.6	Lubricating oil.....	11.5
Bread and bakery products.....	32.1	Fertilizers.....	10.3
Textiles (dyeing and finishing).....	31.7	Alcohol and liquors (a).....	9.2
Silk and rayon finishing.....	31.4	Blast furnaces.....	6.9
Copper and tin.....	30.8	Meat packing.....	6.8
Woolens.....	29.6	Sugar refining.....	5.5
Beverages.....	28.3	Copper smelting.....	4.5
		Lead smelting.....	4.3

Now, I pointed out some features of this pay-roll tax. There is another feature of it which I think will appeal to your sense of justice

as between different manufactureres, Mr. Lewis. A pay-roll tax is grossly inequitable as between employers. For instance, taking the case of two companies of which I know, which have approximately the same number of employees and approximately the same total pay rolls and would, therefore, pay the same annual tax under this bill: One of these companies does a gross annual business of about 3 million dollars; the other does a gross annual business of about 20 million dollars. In other words, the first company does nearly seven times as much dollar volume of business as the second company, but they would pay the same tax under this bill. Therefore, the tax largely ignores the capital invested, the nature of the product, the rapidity of turnover, the volume of gross business, and the question and amount of profit.

Again, let us consider the application of this tax to two employers making the same product and in keen competition for the same markets. One of these employers has modern machinery and equipment; the other does not. The one who has better machinery pays less tax because his pay roll is less.

Mr. LEWIS. How about the tax on machinery—the other taxes he has to bear, domestic taxes?

Mr. GALL. You are talking about direct property tax?

Mr. LEWIS. Yes.

Mr. GALL. They do not amount to much in any of the States.

Mr. LEWIS. That is the first time we have heard that statement made in the Ways and Means Committee for some years. I am not sneering.

Mr. GALL. I will say this: I am talking about the direct property tax as such, standing alone; the amount involved in proportion to value, in most States, is very small, and is a very small item in the cost of doing business compared with other forms of tax, such as the real property tax.

Mr. REED. There are many communities throughout the country where, in order to induce industries to locate there, they will relieve them from all tax for a period of years; is not that true?

Mr. GALL. Yes, that is true. Now, coming back to these two employers, one of whom has modern equipment and the other does not. The one who has better machinery pays less tax because his pay roll is less. Employers pay men, not machines. Can there be any question but that this and similar legislation will drive industry faster and faster toward mechanization? Can there be any question but that its normal tendency will be to depress wages, since the higher the total pay roll, the greater the taxes? Can there be any question but that it will retard reemployment of men and intensify the development of machinery and its substitution for men? Let me give you an illustration right there that I happen to know about.

A certain N.R.A. code went into effect recently—I won't make any "bones" about it; it was in a branch of the knit-goods industry. When that code went into effect, that industry had a convention in New York and they displayed some new machines largely developed since the code went into effect, and they displayed machines there which will do exactly three times the amount of work done by any machine prior to the adoption of the code. In other words, the more you put these costs on industry in relation to the number of

men employed, the more you provide an incentive towards mechanization, and the 5 percent pay-roll tax is a very substantial tax when employers begin to consider the relative advantage of employing more men, or buying more machines. That is particularly true in the case of people entering into business and establishing a new plant. The employer already established gives a great deal of consideration, I have found, to keeping his men. He does not want to let them go and substitute machines for them until he is driven to—generally he does not. But when a man comes into an industry and has not any obligations toward employees already on his pay roll, he looks for the most efficient way of producing goods. And when you consider the pay-roll tax in the light of what that man is going to do, he is going to favor the machine every time if there is a differential in its favor at all; or even if the cost under the machine system might be the same, the direct cost, because it will mean less trouble; it does not require the managerial ability and does not require the constant management, in other words, and the probability of labor difficulties in a time like this.

Mr. LEWIS. In other words, if the machine costs and pay roll were about the same, he would prefer the machine?

Mr. GALL. Oh, no question about it; a man coming into the industry anew would; yes, sir.

Let me point out another factor with respect to the operation of the proposed tax—this is the question Mr. West raised awhile ago. It is obvious that it operates most heavily against those industries which use the highest percentage of labor; that is, in which the labor cost represents a very substantial part of the total cost of the product. Generally speaking, manufacturing industries are divided into two classes—the manufacture of quickly consumed goods, such as food, tobacco, and the like; and capital or durable goods, such as machinery, equipment, buildings, automobiles, and so forth. Today the great bulk of unemployment is in the durable-goods industries. The consumers' goods industries are operating almost at their 1929 level for the most part; but the durable-goods industries are away down at the bottom of the depression yet.

Mr. WEST. It shows the decline in the demand for consumers' goods, even during the depression, was not as drastic as in the durable goods.

Mr. GALL. No, not nearly.

Mr. WEST. The decline was relatively moderate.

Mr. GALL. Now these industries in which the labor cost is higher, if you will examine the census schedule of costs, giving the labor costs in proportion to the total costs, you will find that the durable commodities that used more men have bigger pay rolls in which the relationship is much higher of the labor cost to the total value of the product. These are the industries in which labor cost is high. These are the industries where reemployment is most needed. Yet it is proposed to add a pay-roll tax to the difficulties already faced by the durable-goods industries through restriction of credit and the operations of the Securities Act of 1933. What is needed in these industries is something that will make it easier rather than harder for them to resume normal operations and to reemploy men.

Can this tax be passed on? Of course, many of the proponents of this legislation are indifferent as to whether the tax burden is absorbed

by the employer or is passed on to the ultimate consumer of goods or services. Miss Perkins told your committee:

The cost of this tax would be passed on almost painlessly by a very minute rise in prices, and by very minute changes in the rate of profit to the particular industry and in the rate of dividends.

Now that is naive, but it is unconvincing to me, at any rate. I have been making some study of the ability of industry, on the one hand, to absorb these costs and of the ability, on the other hand, to escape them by passing them on, and I want to tell you that industry is between the devil and the deep blue sea when it faces a tax of this kind today. There are very definite limitations to the ability of industry to pass on additional costs, particularly at the present time. The Federal Reserve Board several months ago pointed out that in certain industries operating under N.R.A. codes rises in prices, largely due to increased costs, had seriously curtailed consumption. This is borne out by the experience of practically all industries under codes. There is no question but that in most industries the point has long since been passed when any additional cost can be transferred through even "minute" increases in prices.

I would like to put into this record if I may a document which I have here, but cannot lay my hand on right now, in the form of a letter to me with respect to the tax which you are considering here which I had from Mr. Wroe Alderson, whom I believe you know, Mr. West. Mr. Alderson is recognized as one of the greatest marketing experts in the United States. He has been an expert in that field for many years in the Department of Commerce. He has recently established his own business and is engaged in making analyses and research in the field of marketing, including studies on pricing policies of companies, including to some extent the ability of certain industries to pass the tax on. I asked Mr. Alderson to give me his opinion as to the extent to which industry could pass this pay-roll tax on, and he has written me a letter in which he discusses it very briefly, which I think will be extremely interesting to the committee. I would like, unless you are sure you are going to close this hearing tomorrow—

Mr. LEWIS. I think that is virtually a decision, sir.

Mr. GALL. I have already indicated enough here—

Mr. LEWIS. Have you got his letter here to submit?

Mr. GALL. I will put it in the record. I must have it at my office; I do not seem to have it here.

Mr. LEWIS. You can submit it. I certainly will want to see it.

Mr. GALL. I think, sir, I ought to emphasize I think the committee is making a great mistake—

Mr. LEWIS. We have allowed 9 days.

Mr. GALL. You mean for people who were opposed to the bill?

Mr. LEWIS. No.

Mr. GALL. No—for the friends of the bill; the people who had notice before the opponents that the hearings were going to be held. Now we had to prepare for this thing after things got under way; the friends of the bill were all lined up and waiting here and, as I say, they have had over a week, and I had an application in before the committee before the first hearing was ever held on this bill and have been waiting patiently ever since then.

Mr. LEWIS. The question will be submitted to the committee. It is not a decision yet, but there will be a decision soon.

Mr. GALL. I would like to point this out, that there has not been but one political issue in this country in my lifetime that has raised a greater controversy and more bitter dispute than this thing will after it has been in operation a short time, if it is valid. I will say it will dwarf most aspects of the N.R.A. operation, which is a temporary matter, anyhow, we expect.

Mr. LEWIS. You are speaking of the political issue it will raise?

Mr. GALL. Yes, I am speaking of the political issue; because unemployment insurance schemes in Europe today are centering more attention politically than any other one thing there is, and you cannot escape it here as long as we have the form of government we do and the people who are beneficiaries have an equal voice in determining the policy with those who are paying the bill.

(The following is the letter of Mr. Alderson submitted for the record by Mr. Gall:)

MERCHANDISING FACTS, INC.,
Washington, D.C., March 28, 1934.

Mr. JOHN GALL,
National Association of Manufacturers
Investment Building, Washington, D.C.

DEAR JOHN: Having to catch a train to New York in a few minutes I am unable to give as much thought as I would like to your problem concerning the newly proposed form of taxation. The 5 percent tax on pay rolls is not the kind of tax which economists would say could not be shifted, reasoning on purely theoretical grounds. It seems to me, therefore, that argument has to be constructed in terms of merchandising necessities. Emphasis should be placed on the tremendous amount of goods designed for the ultimate consumer which are made to sell at a stated price, or which, by customary practice in the retail field, are presented to the public on the basis of price lines. The range of merchandise covered would include drugs, cosmetics, a great part of the confectionery field and almost the whole field of ready-made garments and apparel.

One aspect of the matter which should receive considerable emphasis I imagine you have already gone into. This is the fact that such a tax would impose a penalty directly on the firms which were doing most to increase purchasing power under the Recovery Act. This form of taxation would undoubtedly provide additional incentives for code violations. It would also be an additional stimulus to mechanization of plants. It would lie in exactly the opposite direction to the proposal of some economists who are concerned over the increase of technological employment and who welcome a tax on the machine in order to retard the rate of displacing human labor.

I will be back in Washington tomorrow morning and hope it will not be too late to send on to you any further thoughts which I may have on the subject.

Sincerely yours,

WROE ALDERSON,
Director of Research.

Mr. GALL (continuing). As I say, there is no question but that in most industries the point has long since been passed when any additional cost can be transferred through even minute increases in prices. This is particularly true in the durable goods industries, to which I have referred, for their production is dependent almost entirely on the flow of investment funds, and such funds are not available except on attractive terms. The result is that the durable goods industries must be revived in what is practically a "buyers market."

Miss Perkins' reference to a reduction in the rate of profit would be humorous if not so seriously proposed. I desire, however, to invite the committee's attention to the facts as disclosed by the cor-

poration income tax returns for the year 1932—which are the latest ones available. They disclose that of 481,368 corporations filing returns for 1932, only 78,775 reported any net income. Three hundred forty eight thousand, nine hundred and fifty four, or seventy two and four-tenths percent, of the total number reported a deficit.

But more startling still than the above figures are the dollar figures as to the deficits involved. The total deficit reported was \$6,420,000,000. The corporations which reported a net income showed a total net income of \$1,861,000,000 so that even after this figure is subtracted from the \$6,420,000,000 deficit, we have a total net deficit for all corporations of \$4,569,000,000 for the year 1932. This would hardly indicate that the corporate business of the country is in a financial situation which would warrant the imposition of additional tax burdens at this time.

In this connection I wish to point out that the taxpayers of the Nation are already struggling under a crushing burden of local debt and local taxation. The index published by the New York Trust Co. for April 1934—that is the current issue—says:

On December 1, 1933, there were in all 303 counties—

That is about 10 percent of them, incidentally--

* * * 644 cities and towns, 300 school districts, and 60 other districts in default, constituting a total of 1,307 governmental districts

In the light of that picture, is it in the public interest that the Congress of the United States should pass a measure imposing an additional tax burden of not less than \$1,000,000,000 per year (estimated by the Secretary of Labor), upon the taxpayers of the country, and by the form of the measure inducing, if not compelling, State governments to levy upon their citizens for new purposes when there is such a general inability to meet local governmental debts already incurred?

Now when Mr. Draper was on the stand this morning, he stated to you that the States probably would not act in this matter, if you left them alone, because they had had this subject before them for 20 or 25 years and had not done anything about it. My observation is the probability is in most States the reason they did not do anything about it was not because they did not study plans—

Mr. LEWIS. Would that explain why two States, after 25 years, will not adopt such an obviously just piece of legislation as workmen's compensation?

Mr. GALL. I want to talk to you about that workmen's compensation—I am glad you brought that up, and the analogy which is often made there, between unemployment insurance and workmen's compensation.

Mr. LEWIS. Moral analogy?

Mr. GALL. No; it is not a moral analogy. Most of them say the employer is responsible for both in large measure; that he has some control over his employees' situation and can prevent unemployment—I am talking about casual unemployment—to the same extent he can control industrial hazards. Now, the impression has been left with this committee that employers fought the workmen's compensation laws when they were first proposed. I want to tell you that is absolutely untrue.

Mr. LEWIS. Yes; but that is not the issue. They did not show the initiative to give us a feeling that they will ever by voluntary initiative and enterprise provide a substitute for legislative action.

Mr. GALL. Of course there were many things in the workmen's compensation—

Mr. LEWIS. I have had quite an experience on this very subject.

Mr. GALL. I know you have.

Mr. LEWIS. There never was a time when I thought any employer was less humane than myself; but I know, as a fact, that they did not show the initiative that would warrant the belief they would act on this subject.

Mr. GALL. Mr. Chairman, I do not believe even that warrants the Congress of the United States in compelling the States, and that is what this bill does; to adopt these measures whether they are ready for them or not, or whether, in their opinion, they are warranted in passing them. I think the right of a State to legislate on a subject means something more than the mere right to decide, within narrow limits laid down by Congress, what they will pass; I think the right of a State to legislate involves the right not to legislate, if it sees fit.

Mr. LEWIS. I think that is purely a doctrinal view, sir.

Mr. GALL. It may be, sir, but I believe it is sound doctrine. For instance your biography—and I hope you won't mind my being personal—says you went to work in a coal mine when you were 9 years of age. Now, if prior to the time you did that we had had a Federal act on child labor, compelling your State to pass a child-labor law, you probably could not have done that. You might say that would have been a good thing for you, but a lot of people look at the point you have reached, to the wonderful positions you have held and hold now, and say it would not have been a good thing for you or the country, either, if that situation had existed at that time.

Mr. LEWIS. Thank you warmly, but luck and accident count so much in our personal careers, that I would not like to risk the path again.

Mr. GALL. Nevertheless, it still is true that the young people of today in this country look to the people who have succeeded in spite of every handicap such as that, as their inspiration for doing things. I think we do not want to kill off that spirit of individualism. I use the term "individualism"; I know it is sneered at a lot, but I know it is still a respectable term and I think we ought to cultivate it instead of sneering at it.

Now, Mr. Chairman, I hope I am not burdening the committee, but I have prepared a good bit of material on this subject and I fear the opposition to this thing is not going to be sufficiently a matter of record for the Members of Congress to get the true picture. I am down nearly to the legal argument on this thing, which won't take more than 10 minutes.

Mr. REED. Before you get to that argument, I want to ask you one question. You may have covered it in your statement, but I would like to have it as specific as possible. Do you know how many, out of the total number of industries that would come within the provisions of this act, made a profit in 1932? Did you cover that in the specific form in the figures you gave?

Mr. GALL. No, sir. I believe that would be very difficult to arrive at.

Mr. REED. I thought it would.

Mr. GALL. It might be done. I am perfectly willing to ask the National Industrial Conference Board to get those figures up for you, if the committee is sufficiently interested to want them before it reports this bill.

Mr. REED. I certainly would like to have it.

Mr. GALL. I have a relationship with the Conference Board which entitles me to call for such data, and I would be glad to give it to the committee.

One of the most excellent recent discussions of the economic situation of the country is contained in the volume "The Economics of Recovery", by Col. Leonard P. Ayres, widely known economist. Colonel Ayres, after discussing the various recovery measures passed in the 100-day session of the Seventy-third Congress last spring, makes the following extremely pertinent comment:

All these projects and their accompanying provisions for huge grants to refund mortgages, building public works, and make loans to businesses and to governmental subdivisions, involve immense increases in our public indebtedness. This threatens to set up for the future a vicious cycle in which great expenditure requires heavy taxation, which lowers the energy of industry, which gives less employment, which calls for greater expenditures to be met by increased taxation.

All these considerations of what government might do, and of what it is doing, would have an importance that would fall short of being of the first order if this depression were a temporary emergency from which we might reasonably hope to emerge in the near future. Unfortunately, our depression problems are gravely serious, and as yet there is no convincing evidence that we have found the way to their solution. We have millions of unemployed, and no great expanding constructional industries to absorb them. We have tens of millions of acres of cultivated lands with no markets either domestic or foreign for their produce. We are burdened with heavy indebtedness to which we are rapidly adding. Our present problem is how to get out of this depression, and it transcends in importance and urgency all other considerations.

So far I have alluded to this 5 percent pay roll burden as a tax. That is the only reason it is before this committee, that it is presumably a tax measure; presumably a measure for raising revenue. But the Supreme Court has said "The use of the word 'tax' in imposing a financial burden does not prove conclusively that the burden imposed is a tax". That was said in the case of *U.S. v. One Ford Coupe Automobile*, 272 U.S. 321.

The same principle of judicial examination has come to be a familiar practice in other fields. Thus the court has held that the declaration that an "emergency" exists will be examined with a view to determining whether in fact one does. They did that in the rent cases here in the District of Columbia. The first cases came along and they sustained the measure as an emergency measure. Later some cases came along, under the same statute, and the court examined the question of whether the mere fact that the bill said an emergency existed, meant that it did; and, of course, it said that it did not. The court delivered its opinion through Mr. Justice Holmes, in the case of *Chastleton Corporation v. Sinclair*, 264 U.S. 543 and, among other things, he said:

The original Act of October 22, 1919, ch. 80, title 2, 41 Stat. at L. 297. Fed. Stat. Anno. Supp. 1919, p. 49, considered in *Block v. Hirsh*, was limited to expire in 2 years. Par. 122. The Act of August 24, 1921, ch. 91, 42, Stat. L. 200. Fed. Stat. Anno. Supp. 1921, p. 51, purported to continue it in force, with some amendments, until May 22, 1922. On that day a new act declared that the emergency described in the original title 2 still existed, reenacted with further amendments the amended act of 1919, and provided that it was continued until May 22, 1924, Act of May 22, 1922, ch. 197, 42 Stat. at L. 543.

We repeat what was stated in *Block v. Hirsh*, 256 U.S. 135, 154, 65 L. ed. 865, 870, 16 A.L.R. 165, 41 Sup. Ct. Rep. 458, as to the respect due to a declaration of this kind by the legislature so far as it relates to present facts. But, even as to them, a court is not at liberty to shut its eyes to an obvious mistake, when the validity of the law depends upon the truth of what is declared.

Now if the validity of the bill before your committee depends on the truth of the statement in the title that this is an excise tax, I contend that under all of the decisions of the Supreme Court the court must invalidate the act; because, as I shall point out, this payroll tax is not levied for the purpose of raising a billion dollars for the Federal Treasury; it is a pay-roll tax that is clearly levied for the purpose of compelling uniform State action in a field you are afraid otherwise the States won't occupy. And if they do occupy it, you won't get the tax. And I have never heard of a revenue measure yet which carried on the face of it the means by which the revenue was to be defeated.

The well-known declaration by a State legislature that a particular business is affected with a public interest so as to justify a regulation the State wishes to impose, has been met by the Supreme Court with the statement that:

It is manifest from an examination of the cases cited under the third head that the mere declaration by a legislature that a business is affected with a public interest is not conclusive of the question whether its attempted regulation on that ground is justified. The circumstances of the alleged change from the status of a private business and its freedom from regulation into one in which the public have come to have an interest are always a subject to judicial inquiry. (Unanimous opinion, *Chas. Wolff Packing Case*, 262 U.S. 522.)

"A tax," said the Supreme Court in *United States v. Baltimore & Ohio Railroad Co.*, 17 Wall. 322, "is understood to be a charge, a pecuniary burden, for the support of Government. * * * That is taxation which compels one to pay for the support of the Government from his own gains and of his own profits."

Of course it is no objection to a tax that it may also achieve some other incidental object. (*United States v. Yuginorich*, 256 U.S. 450.) But the other object must be incidental, and where it appears that the primary purpose of the levy is to achieve some other object, to compel some course of conduct, or to penalize a departure from a course approved by Congress, and the raising of revenue is only incidental, the financial burden imposed under the guise of a tax cannot be sustained. This was the sole point involved in the Child Labor Tax case (*Bailey v. Drexel Furniture Co.*, 259 U.S. 20), a decision from which Justice Clark alone dissented, and which I will discuss a little later.

Many years ago Chief Justice Marshall, in the celebrated case of *McCulloch v. Maryland*, (4 Wheat. 406), said:

Should Congress, in the execution of its powers, adopt measures which are prohibited by the Constitution; or should Congress, under the pretext of executing its powers, pass laws for the accomplishment of objects not entrusted to the Government, it would become the painful duty of this tribunal, should a case requiring such a decision come before it, to say that such an act was not the law of the land.

That language—the use of an expressed power as a pretext for accomplishing something else—Mr. Chairman, seems to me so apt in connection with this bill, that it is as though Marshall were standing here describing this bill.

Now it was inevitable that in the actual operation of a system of government such as ours where certain powers were conferred upon the general government and all others were reserved to the States or to the people by the tenth amendment, there should be at times conflicts of jurisdiction. In these instances it is essential that the Supreme Court do what it has done, namely, determine in particular cases whether the States on the one hand have invaded a field committed to Congress, or whether Congress, on the other hand, has undertaken to legislate within the exclusive province of the States.

The case books and reports contain numerous cases in which it has been necessary for the Supreme Court to protect the field within which Congress alone may legislate, by declaring acts of State legislatures invalid. This is particularly true in cases where the States, through a pretended exercise of their taxing power or their general police power, have invaded the field of interstate commerce. Those cases are familiar to all of us, where they have pretended to levy a tax and the court held it was invalid because it was an excessive burden on interstate commerce, which was within the exclusive jurisdiction of the Congress to regulate.

It is to the credit of the Congress of the United States that it has seldom directly transgressed the appropriate boundaries of Federal action and invaded the field reserved to the States by the tenth amendment. It has done so in three notable cases, however, and in each of these cases the Supreme Court has been obliged to invalidate the congressional action in the same way that it has often dealt with improper exercises of State power.

Mr. LEWIS. Is this the court speaking?

Mr. GALL. No, sir; that was mine. I am sorry I did not make that clear. I was not citing any case at that time.

It is hardly necessary to point out to this committee, most of the members of which are lawyers, that there is a distinction, both in fact and in law, between manufacture or production on the one hand, and commerce on the other. Nowhere has this distinction been more aptly described than in the leading case of *Kidd v. Pearson* (128 U.S. 1) where the court differentiated between manufacture and commerce and pointed out that while the latter was subject to the regulation of the Federal Government, the former, with all its incidents, was reserved from the grant of power to Congress. The court said:

"No distinction is more popular to the common mind or more clearly expressed in economic and political literature than that between manufactures and commerce. Manufacture is transformation—the fashioning of raw materials into a change of form for use. The functions of commerce are different. The buying and selling and the transportation incidental thereto constitute commerce; and the regulation of commerce in the constitutional sense embraces the regulation at least of such transportation. The legal definition of the term, as given by this court in *County of Mobile v. Kimball* (102 U.S. 691, 702) is as follows:

"Commerce with foreign countries, and among the States, strictly considered, consists in intercourse and traffic, including in these terms navigation, and the transportation and transit of persons and property, as well as the purchase, sale, and exchange of commodities.

"If it be held that the term includes the regulation of all such manufactures as are intended to be the subject of commercial transactions

in the future, it is impossible to deny that it would also include all productive industries that contemplate the same thing. The result would be that Congress would be invested, to the exclusion of the States, with the power to regulate, not only manufactures, but also agriculture, horticulture, stock raising, domestic fisheries, mining—in short, every branch of human industry. For is there one of them that does not contemplate, more or less clearly, an interstate or foreign market? Does not the wheat grower of the Northwest, and the cotton planter of the South, plant, cultivate, and harvest his crop with an eye on the prices at Liverpool, New York, and Chicago? The power being vested in Congress and denied to the States, it would follow as an inevitable result that the duty would devolve on Congress to regulate all of these delicate, multiform, and vital interests—interests which in their nature are and must be, local in all the details of their successful management.

"It is not necessary to enlarge on, but only to suggest the impracticability of such a scheme, when we regard the multitudinous affairs involved, and the almost infinite variety of their minute details."

In numerous cases the Supreme Court has reiterated and emphasized the distinction, as well as the exclusive jurisdiction of the State governments over manufacture and production and their incidents, including rights and obligations as between employers and employees.

In *United Mine Workers v. Coronado Coal Co.* (259 U.S. 344) the court said:

Coal mining is not interstate commerce and the power of Congress does not extend to its regulation as such.

Then in *Olicer Iron Mining Co. v. Lord* (262 U.S. 172, 178):

Mining is not interstate commerce but, like manufacturing, is a local business, subject to local regulation and taxation. * * * Its character in that regard is intrinsic, is not affected by the intended use or disposal of the product, is not controlled by contractual engagements, and persists, even though the business be conducted in close connection with interstate commerce.

In *Anderson v. Ship Owners' Association* (272 U.S. 359, 364), the court said:

Neither the making of goods nor the mining of coal is commerce; and the fact that the things produced are afterward shipped or used in interstate commerce does not make their production a part of it.

In *Champlin Refining Co. v. Corporation Commission* (286 U.S. 235), the court said:

Plaintiff contends that the act and proration order operate to burden interstate commerce in crude oil and its products in violation of the commerce clause. It is clear that the regulation prescribed and authorized by the act and proration established by the commission apply only to production and not to sales or transportation of crude oil or its products. Such production is essentially a mining operation, and therefore is not a part of interstate commerce even though the product obtained is intended to be and in fact is immediately shipped in such commerce.

As was pointed out in the *Employers Liability Cases*, (207 U.S. 463), an employer, even when he engages in commerce, does not thereby submit the control of his noncommercial business or his acts of production to Congress, but these, insofar as they may be regulated, are within the exclusive jurisdiction of the States.

The members of this committee are, of course, familiar with the long agitation which led to the passage of the first Federal Child Labor Act in 1916. One of the chief contentions which preceded enactment of that statute was the same as the contention now made for the bill before your committee, namely, that congressional action was essential in order to equalize competition as between employers of different States and to prevent what some regarded as unfair competition.

Congress in that instance undertook to use the commerce power for the purpose of regulating the employment of minors within the States by excluding from commerce products of plants employing child labor in violation of the statute. The Supreme Court of the United States, when that act was challenged, considered all the arguments that have been advanced before your committee in support of the desirability of the pending legislation. The court held the act invalid and in its opinion, delivered by Mr. Justice Day, said:

The act in its effect does not regulate transportation among the States, but aims to standardize the ages at which children may be employed in mining and manufacturing within the States. * * * The making of goods and the mining of coal are not commerce, nor does the fact that these things are to be afterwards shipped, or used in interstate commerce, make their production a part thereof. (*D. L. & W. Railroad Co. v. Yurkonis*, 238 U.S. 439.)

Over interstate transportation, or its incidents, the regulatory power of Congress is ample, but the production of articles intended for interstate commerce is a matter of local regulation. (*Hammer v. Dagenhart*, 247 U.S. 251.)

The court further said:

If it were otherwise, all manufacture intended for interstate shipment would be brought under Federal control to the practical exclusion of the authority of the States—a result certainly not contemplated by the framers of the Constitution when they vested in Congress the authority to regulate commerce among the States. (*Kidd v. Pearson*, 128 U.S. 1, 21, 32 L. Ed. 346, 350 2 Inters. Com. Rep. 232, 9 Sup. Ct. Rep. 6.)

It is further contended that the authority of Congress may be exerted to control interstate commerce in the shipment of child-made goods because of the effect of the circulation of such goods in other States where the evil of this class of labor has been recognized by local legislation, and the right to thus employ child labor has been more rigorously restrained than in the State of production. In other words, that the unfair competition thus engendered may be controlled by closing the channels of interstate commerce to manufacturers in those States where the local laws do not meet what Congress deems to be the more just standard of other States.

There is no power vested in Congress to require the States to exercise their police power so as to prevent possible unfair competition. Many causes may cooperate to give one State, by reason of local laws or conditions, an economic advantage over others. The commerce clause was not intended to give to Congress a general authority to equalize such conditions. In some of the States laws have been passed fixing minimum wages for women; in others the local law regulates the hours of labor of women in various employments. Business done in such States may be at an economic disadvantage when compared with States which have no such regulations; surely, this fact does not give Congress the power to deny transportation in interstate commerce to those who carry on business where the hours of labor and the rate of compensation for women have not been fixed by a standard in the use in other States and approved by Congress.

The grant of power to Congress over the subject of interstate commerce was to enable it to regulate such commerce, and not to give it authority to control the States in their exercise of the police power over local trade and manufacture.

The grant of authority over a purely Federal matter was not intended to destroy the local power always existing and carefully reserved to the States in the tenth amendment to the Constitution.

Police regulations relating to the internal trade and affairs of the States have been uniformly recognized as within such control. "This", said this court in *United States v. Dewitt*, 9 Wall. 41, 45, 19 L.Ed. 593, 595, "has been so frequently declared by this court, results so obviously from the terms of the Constitution, and has been so fully explained and supported on former occasions, that we think it unnecessary to enter again upon the discussion." See *Keller v. United States*, 213 U.S. 138, 144-146, 53 L.Ed. 737-740, 29 Sup. Ct. Rep. 470, 16 Ann. cas. 1066; *Cooley*, Const. Lim. 7th ed. p. 11.

In the judgment which established the broad power of Congress over interstate commerce, Chief Justice Marshall said (9 Wheat. 203, 6 L.Ed. 72): "They (inspection laws) act upon the subject before it becomes an article of foreign commerce, or of commerce among the States, and prepared it for that purpose. They form a portion of that immense mass of legislation which embraces everything within the territory of a State, not surrendered to the general Government—all of which can be most advantageously exercised by the States themselves. Inspection laws, quarantine laws, health laws of every description, as well as laws for regulating the internal commerce of a State, and those which respect turnpike roads, ferries, etc., are component parts of this mass."

and again:

In interpreting the Constitution it must never be forgotten that the Nation is made up of States, to which are intrusted the powers of local government. And to them and to the people the powers not expressly delegated to the national Government are reserved. (*Lane County v. Oregon*, 7 Wall. 71, 76, 19 L.Ed. 101, 104. (The power of the States to regulate their purely internal affairs by such laws as seem wise to the local authority is inherent, and has never been surrendered to the General Government. (*New York v. Miln*, 11 Pet. 102, 139, 9 L.Ed. 648, 662; *Slaughter-House Cases*, 8th, 16 Wall. 36, 63, 21 L.Ed. 394, 404; *Kidd v. Pearson*, *supra*.) To sustain this statute would not be, in our judgment, a recognition of the lawful exertion of congressional authority over interstate commerce, but would sanction an invasion by the Federal power of the control of a matter purely local in its character and over which no authority has been delegated to Congress in conferring the power to regulate commerce among the States.

We have neither authority nor disposition to question the motives of Congress in enacting this legislation. The purposes intended must be attained consistently with constitutional limitations and not by an invasion of the powers of the States. This court has no more important function than that which devolves upon it the obligation to preserve inviolate the constitutional limitations upon the exercise of authority, Federal and State, to the end that each may continue to discharge harmoniously with the other the duties intrusted to it by the Constitution.

Now just in passing, I will say that the first Child Labor Act which was invalid was one of the three instances I refer to. That was a case in which Congress, in the face of a unanimous report of its Judiciary Committee, passed the act, undertaking, as the court said, "the pretended exercise" of its power over interstate commerce to compel employers in the various States not to use child labor. That was the essence of the act, anyhow, and the court said that it was not the exercise of the power over interstate commerce but plainly designed to accomplish an object within the exclusive regulatory field of the States under the tenth amendment. That case is often discounted somewhat because of the five-to-four decision, but I notice the same people who discount it do not hesitate to acclaim the recent milk-case decision which was five to four in their favor. As far as I am concerned, it is the law of the land, just the same as the milk case is. A five-to-four decision does not make any difference to me. That is the reason we have nine judges, so that they won't be evenly divided.

Chief Justice Hughes in his work, "The Supreme Court of the United States, published in 1927 before he again became a member of

the Court, has the following comment to make on the first child-labor decision:

The question, when the Federal Government acts, is whether it acts within the limited powers conferred. Because Congress was found to be acting within its authority over interstate commerce, the Supreme Court sustained, for example, the interdiction of the carriage from one State to another of lottery tickets (*Lottery Case*, 1003, 188 U.S. 321, 357), of impure foods (*Hipolite Egg Co. v. United States*, 1911, 220 U.S. 46, 58), of diseased animals (*Heid v. Colorado*, 1902, 187 U.S. 137), of women for purposes of prostitution, (*Hoke v. United States*, 1913, 227 U.S. 308, 322). Acting within the scope of its war power Congress established war-time prohibition (*Hamilton v. Kentucky Distilleries Co.*, 1919, 261 U.S. 146). These measures were found none the less to be within the authority of Congress because they had the quality of police regulations.

The distinction to be observed is between the exercise of the power of Congress over a subject committed to it and its attempt to establish a regulation over a subject not committed to it. The most striking illustration of the difficulty in maintaining this distinction is in the first child-labor case (*Hammer v. Duganhart*, 1918, 247 U.S. 261), to which I have already alluded. Congress had undertaken to prohibit the transportation in interstate commerce of goods made in a factory in which, within 30 days prior to the removal of the goods, children of a certain age had been employed. It was found that the goods in question were of themselves entirely harmless; their production in the factory was not commerce, and the power of Congress did not extend to that production. It was decided, against strong dissent, that Congress was endeavoring to control production within the State under the guise of regulating commerce among the States. Justice Day, in giving the opinion of the court (id., p. 270), indicated the far-reaching result of a contrary view by pointing out that if Congress could thus regulate matters intrusted to local authority, by the prohibition of the movement of articles in interstate commerce, the power of the States over local matters would be eliminated and our system of government would practically be destroyed.

That is Mr. Justice Hughes' own language in commenting on the decision and its effect. Of course, if Congress could use its power over interstate commerce and its taxing power for the purpose of achieving anything else it wanted to, but could not legislate directly upon, the whole series of limitations of the Constitution would be a futility. You could achieve the desired end by simply pretending to exercise the taxing power, or the power over interstate commerce, and tying the other thing to it.

The first Child Labor Act having been invalidated and the court having held that Congress could not use its admitted power to regulate interstate commerce for the purpose of regulating matters reserved to the States by the tenth amendment, Congress again undertook to deal with the same subject matter.

In 1919 Congress passed an act imposing a so-called "tax" of 10 percent on the net profits of any employer knowingly employing any persons within certain age limits as set forth in the act of Congress. The statement of the issue before the court is clear and unmistakable and might, with slight modification, be as aptly stated with respect to the bill now before your committee. I am quoting the court now in their statement of what the issue before the court was in the *Child Labor Tax Case*, in which every justice of the Supreme Court, except Justice Clark concurred. The court said:

The law is attacked on the ground that it is a regulation of the employment of child labor in the States—an exclusively State function under the Federal Constitution and within the reservations of the tenth amendment. It is defended on the ground that it is a mere excise tax. * * *

Just like this tax in here is described; this pay-roll tax -

* * * It is defended on the ground that it is a mere excise tax, levied by the Congress of the United States under its broad power of taxation conferred by paragraph 8, article I, of the Federal Constitution. We must construe the

law and interpret the intent and meaning of Congress from the language of the act. "The words are to be given their ordinary meaning unless the context shows that they are differently used. Does this law impose a tax with only that incidental restraint and regulation which a tax must inevitably involve? Or does it regulate by the use of the so-called "tax" as a penalty?"

The court, in a decision from which Mr. Justice Clark alone dissented, held that the so-called "tax" was merely

* * * a penalty to coerce people of a State to act as Congress wishes them to act in respect of a matter completely the business of the State government under the Federal Constitution. * * *

Grant the validity of this law

Said the court

and all that Congress would need to do hereafter, in seeking to take over to its control any one of the great number of subjects of public interest, jurisdiction of which the States have never parted with, and which are reserved to them by the tenth amendment, would be to enact a detailed measure of complete regulation of the subject and enforce it by a so-called "tax" upon departures from it. To give such magic to the word "tax" would be to break down all constitutional limitation of the powers of Congress and completely wipe out the sovereignty of the States.

Mr. Chief Justice Hughes, in the volume already referred to, comments on the decision in the *Child Labor Tax* case as follows:

The Court has gone very far in this view in sustaining the exercise of the Federal taxing power. But it is obvious that it might go so far that Congress under the guise of the taxing power could destroy all the reserved rights of the States. As Chief Justice Taft said in the recent child-labor case with respect to the presumption of validity appearing on the face of the statute: "Grant the validity of this law, and all that Congress would need to do, hereafter, in seeking to take over to its control any one of the great number of subjects of public interest, jurisdiction of which the States have never parted with, and which are reserved to them by the tenth amendment, would be to enact a detailed measure of complete regulation of the subject and enforce it by a so-called tax upon departures from it. To give such magic to the word 'tax' would be to break down all constitutional limitation of the powers of Congress and completely wipe out the sovereignty of the States". The Chief Justice then drew the distinction between a tax and a penalty and while pointing out that taxes are occasionally imposed in the discretion of the legislature on proper subjects with the primary motive of obtaining revenue from them and with the incidental motive of discouraging them by making their continuance onerous, such taxes do not lose their character as taxes because of the incidental motive. "But there comes a time", said he, "in the extension of the penalizing features of the so-called tax when it loses its character as such and becomes a mere penalty with characteristics of regulation and punishment" (*Bailey v. Drexel Furniture Co.*, 259 U.S. 20, 38; see also, *Trask v. Cook*, 269 U.S. 475). Such was the case then before the Court. When the imposition is found to be a penalty, the Court must ascertain the authority of Congress to impose it as a feature, not of a tax law, but of a regulation of the subject with respect to which the penalty is imposed.

You will note, therefore, that Mr. Hughes in no way took issue with the decision, but on the other hand the final paragraph above quoted is his own language and clearly represents his own view that "when the imposition is found to be a penalty, the Court must ascertain the authority of Congress to impose it as a feature, not of a tax law, but of a regulation of the subject with respect to which the penalty is imposed."

In 1921 Congress passed the first Future Trading Act imposing a levy of 20 cents a bushel on all contracts for the sale of grain for future delivery. That, too, was called an excise tax on transactions on the grain exchanges for the future delivery of grain. In the case

of *Hill v. Wallace* (259 U.S. 44), the Supreme Court, in a unanimous decision, held the act invalid, saying:

The manifest purpose of the tax is to compel boards of trade to comply with regulations, many of which can have no relevancy to the collection of the tax at all. * * * A reading of the act makes it quite clear that Congress sought to use the taxing power to give validity to the act.

Now, Mr. Chairman, that is exactly what is done here in this bill before your committee. This tax has provisions connected with it which in no way are incidental to the collection of the tax. They go to a subject which Congress cannot directly legislate on. The bill before you, in effect, is clearly described by the Supreme Court in the child-labor tax case and the grain-futures case, both of which are cases where Congress purported to levy a tax but added something else to it which showed on the face of the act that the tax was incidental to what the Congress was really trying to accomplish.

And I submit that the record of the proponents of the bill before you, which is almost exclusively the discussion of the merits and demerits of unemployment insurance, in itself goes a long way to show that the major objective here is uniform unemployment insurance laws in the States and not the revenue which the Federal Government might get out of this bill, which would appear if you merely read the title of the bill.

In conclusion, it is unfortunate that in the midst of recovery, when when industry is putting forth every effort to do its part in the partnership proposed by the President, we should be faced with a demand for permanent and burdensome reform legislation of this type. It is regrettable that the President has seen fit to ask it. We have great sympathy with the objective contemplated. Employers have done and are doing much to bring about that objective. But our sympathy with an objective is one thing, and our views as to proper means of achieving it is quite another. We adopt the statement of Mr. Justice Holmes in *Pennsylvania Coal Co. v. Mahon* (260 U.S. 416):

We are in danger of forgetting that a strong desire to improve the public condition is not enough to warrant achieving the desire by a shorter cut than the constitutional way of paying for the change.

We believe that not only the law but the strongest considerations of policy demand that the Federal Government abandon any attempt at compulsion in the field of unemployment insurance.

Now I want to read you for whatever weight it may have with the committee, just one brief quotation from President Roosevelt when he was Governor of New York State. This was in the *Christian Science Monitor*, and you will note it was March 4, 1930—March 4 is a very significant date, even if 1930 was not. When Governor of New York, President Roosevelt said:

Wisely or unwisely, people know that under the eighteenth amendment Congress has been given the right to legislate on this particular subject. But this is not the case in the matter of a great number of other vital problems of government, such as the conduct of public utilities, of banks, of insurance, of business, of agriculture, of education, of social welfare, and of a dozen other important factors. In these, Washington must not be encouraged to interfere.

Now that is the Governor of a State and the letter to the committee is a letter from the President of the United States who happens to have been the same man. With his first pronouncement we agree.

We do not regard compulsory unemployment insurance as a panacea for unemployment. We believe to the extent that unemployment insurance or unemployment reserves may be encouraged by legislation, the proper field of legislation is within the States. We have heretofore urged, however—and I renew this, because, as I said, we do feel that if Congress is going to act, it should act in a proper way under the powers which it has, and in a way that would be valid—that if Congress, in spite of the disastrous experience of foreign countries still believes that compulsory unemployment insurance should be adopted, it should confine its legislation to a proper encouragement of the States and of employers rather than undertaking compulsion as proposed in the pending bill.

A measure such as proposed by Senator Wagner during the Seventy-first Congress, which would encourage employers to establish reserves by permitting credits against their Federal income tax, was endorsed by our association before the Senate committee, before it reported with that recommendation. So I think, Mr. Chairman, that in itself shows some initiative on the part of business organizations. Senator Wagner himself adopted the suggestion—I won't say he adopted it; I will say he adopted the recommendation as a member of the committee, although he himself had given some thought to dealing with the subject that way before we appeared before that committee. We agree with that committee, of which Senator Wagner was a member, that that type of legislation represents the extreme of Federal authority in this field.

What business needs today is not more laws but a moratorium on laws. It needs a chance to adjust itself to the numerous laws already passed during the present Congress. Industry cannot stand the costs contemplated by pending legislation. Whether it can stand them a year from now is highly speculative. We may fool ourselves into thinking we are further out of the depression than we are, and may assume or have imposed on industry burdens which it cannot bear, and which may retard it at this time.

Whether this bill, if enacted, would accomplish the results predicted by its friends, is equally speculative. But there is nothing speculative about the burdens imposed. They are certain, substantial, and inescapable. We submit that the first consideration of Congress should be to get the unemployed back to work, rather than what steps shall thereafter be taken to require the employer to bear the costs of future depressions.

Now, Mr. Chairman, I stated I would make some suggestions to the committee for the amendment of this bill, if it should still be the sense of the committee you ought to legislate on this subject and in the way you propose. I do not have those amendments drafted in the form of the language that I think should be incorporated in the bill, but I can tell you in such a way that there is no doubt about the objectives and, if the committee is really seriously interested in making any changes in the bill, it would be a simple matter for the legislative drafting service to carry these out.

Mr. LEWIS. Have you the suggestions formulated?

Mr. GALL. Yes, sir, I have them right here.

Mr. LEWIS. It is about 20 minutes to 12.

Mr. GALL. I am sorry I have kept you so late.

Mr. LEWIS. You have made a very able presentation of your case.

Mr. GALL. Our first recommendation, of course, is, if Congress is going to legislate at all, that it go back to the original bills proposed by Senator Wagner, or one of his two original bills, and deal with the subject in that way.

Mr. LEWIS. Through the income tax?

Mr. GALL. Through the income tax; yes, sir.

Mr. LEWIS. You are fully conscious of the circumstance that the rate would have to be correspondingly increased?

Mr. GALL. I say, as between a pay-roll tax that taxes a loss as well as a profit, and an income tax, if that is the choice, industry had better pay where it can pay; yes, sir.

Secondly, I think there is unseemly haste about putting this bill into operation—July 1, 1935, and starting collections of the tax July 1, 1936. You realize that gives industry a very short time in which to adjust itself to this tax; it gives the State legislatures a very short time within which to act. Every one of them would have to act on this subject next winter, before July 1, 1935, in order to protect their citizens against the Federal tax which would be levied here. I want to point out to you that some of the State legislatures do not meet in regular session next winter, a few of them, and they would have to be called in special session for this purpose alone.

Furthermore, I want to point out in other cases where the Congress has passed legislation that was not to take effect until some future date, I cannot find any where it has made it go into effect as promptly afterward as this would be. As a matter of fact, in 1929 you passed a much less important bill, which is known as the "Hawes-Cooper Prison Labor Act", and it only went into effect in this year, January 1934—in other words a 5-year waiting period.

I think when you consider this is a field of legislation that the States are just entering upon, that it is very complicated, and that it requires every one of them to study foreign experience and see what type of plan they want to adopt—I think that 5 years would not be too long a waiting period to put into this bill. I want to point out to you, if you do not do that, but let the bill stand as it now is with reference to the time it goes into operation, that some industries have no chance whatever to protect themselves. In shipbuilding, the building of hotels, the building of office buildings, and so on, they are operations that take perhaps 3 years in many cases and contracts are already let under which the operations may have started which will be affected by this tax. Those people cannot go back and modify those contracts. This thing falls on the party who takes the contract, irrespective of the fact he cannot protect himself in any way.

That obtains, primarily, in the durable-goods industry. That is a field I think you ought to be particularly solicitous about in this period of our recovery program.

I also want to point out to you there is no particular hurry about this law now. We cannot cure the depression that we seem to be coming out of. This is future insurance, Mr. Chairman; everybody has emphasized that. It is not a part of the recovery program; it is not a temporary measure; it is permanent legislation and it is not recovery legislation. Nobody argues that this will have one whit of effect on the problems of recovery; unless, as I suggested to you, it may tend to retard them, which I think, in many instances, it will do if enacted.

Third, I think that during the waiting period, if you are going to act on this thing now without further investigation—and I submit there are many Members of Congress who need to make further investigation—if you are going to act on it now, without further investigation, I suggest, first, that you make the waiting period 5 years, Mr. Chairman, and, in the meantime, because it cannot prejudice the case at all, that you recommend that a qualified joint commission of the two Houses be set up to study fully the foreign experience with unemployment insurance and report back whether this act, prior to the time of its going into effect, needs further modification in the light of foreign experience. I think we are entirely fair in asking that, because we are not asking you to defer action on this unnecessarily until you make a lengthy investigation; but, if you will put a proper waiting period in here, there is no reason you cannot go ahead without prejudice to the legislation and make an investigation that ought to be made before the legislation is passed.

Fourth, and I put this some distance down on the list of suggestions because I think it is not the most important feature—I have insisted all along that this pay-roll tax is a tax that has never been intended, really, to raise revenue for the purpose of relieving unemployment; it is not earmarked for that purpose at all. And the fourth recommendation I would make is that this pay-roll tax be reduced from 5 percent to 2½ or 3 percent at the most; because I am familiar with most of the plans which have been advocated in State legislatures for unemployment insurance, and I know the limit on all of them is 3 percent. And if the major purpose here is to get unemployment insurance, which undoubtedly it is, you can accomplish that purpose with a 3-percent tax the same as 5 percent, and the levy on business and the consumer would be much less.

Fifth, I suggest that you give serious consideration to this matter of the point at which this tax will begin to apply, as respects the number of persons employed. I do not make any recommendation about that, but I think it deserves a little further study.

Mr. LEWIS. You mean in the number of 10?

Mr. GALL. Yes, sir. I make the same recommendation with respect to exemptions.

I want to point out in addition to the legal argument which I made here about the use of the taxing power as a means of achieving an object that is not within the jurisdiction of Congress, there are certain other constitutional objections to this legislation. I am not going to argue them, but I want to point out to you there is considerable doubt as to whether a pay-roll tax as proposed here is not a direct tax under the Constitution. It is called an "excise tax" in the title of the bill. I appreciate that, and undoubtedly there is a reason for that. An excise tax has practically no limitations; that is, the Constitution says there must be geographical uniformity, but that means very little. Now there is really a question in my mind as to whether, under some decisions of the Supreme Court, this pay-roll tax is not a direct tax under the Constitution. If so, it is required to be apportioned among the States on the basis of population. That is one thing I want to call your attention to just in passing.

The second thing is this: There is a possibility of a serious constitutional question involved in the exemptions, or the application of the tax to certain groups and not to others. In a very famous case that came to the Supreme Court a few years ago, the case of

Union Sewer Pipe Co. v. Connelly, which I think is reported in 184 United States Reports, or it may be 186 United States Reports (184 U.S. 540) an Illinois antitrust statute exempted producers of agricultural commodities and livestock and dealers in the same, and was held unconstitutional by the Supreme Court because of the exemptions. And I want to call the committee's attention to that case, and to the line of cases of which it is representative, which may have a very direct effect on the validity of this bill. I think that deserves study.

Now I want to make certain suggestions too with respect to that portion of the bill that sets up minimum standards for the States. I think it ought to be made a requirement of any State plan, if you are going to set minimum standards, that the plan be contributory; that employees as well as employers be required to contribute to the fund under the State law. I say that for very definite reasons. In the first place, you undoubtedly know, I think, under all of the European systems, certainly under most of them, the plans are contributory—the employees have to contribute to them. That may be one reason that organized labor of Great Britain is today trying to get rid of the unemployment insurance act they have and to have another one enacted. I will say to you if you make this thing contributory and on a sound basis, and make that one of the minimum standards you require the States to meet, that the labor support will fall away from this bill tomorrow just like that [snapping fingers].

I would like to see it tried; I would like to see if we have the courage to set up a sound plan, because the contributory system is the only sound plan, and not demand of the employer that he bear the whole cost unless he can pass it on. Furthermore, I think every State act should be required, under this act, to include a "means" test. I am not going to read anything more to you, but I happen to have participated last year in the preparation of an unemployment insurance handbook, which was published by the National Association of Manufacturers and in which we have analyzed foreign experience under their laws, and have also analyzed all of the stock arguments which have been made before this committee. We discussed in there the application of the "means" test in Europe, and it will startle you to see some of the cases in which the Royal Commission in Great Britain found they were prevented by the "means" test from paying compensation to people who applied for benefits but ought never to have done so.

So I suggest that you seriously consider requiring in any State act the inclusion of a suitable "means" test by which they can see whether the person applying for benefits is entitled to them on the basis of his finances and income. They found cases of relatively wealthy people applying for benefits in Great Britain. We would find the same thing here, too; do not think we would not. There are certain types of people like that.

There is one very important thing I want to suggest to you. Your bill says, in effect, that if a man is unemployed he may draw his benefits, except in certain instances, and you say in this bill that he shall be entitled to his benefits but shall not be required to take a job where there is a strike. That is one of the things in there. Now, I am not suggesting by any means that you should set up a system which will require a man to be a strike breaker. I do not believe in that at all. But I say there are strikes, and there are strikes. Mr. Justice Brandeis, only recently in a case that came up from Kansas, pointed

out that there is no absolute right to strike; that neither the fourteenth amendment nor the Constitution gives the absolute right to strike; that there are unlawful strikes, as well as lawful strikes. (*Dorchy v. Kansas*, 272 U.S. 306.) I think you should make the distinction there by putting in, before the word "strike" the word "lawful" (page 9, line 13), making it read "lawful strike", so as not to require a man to take a job where there is a lawful strike going on. But if the strike is unlawful, why should not he go ahead and take the job, if he can? Why should he be able to turn around and draw compensation when he can get employment? I do not see any equity in that. I think a distinction should be made in the law as between lawful and unlawful strikes. They have done that in Great Britain in the Trade Disputes Act of 1927; they have catalogued what are lawful and what are unlawful strikes. I refer you to that.

I think, as I said before, it is unsound to prohibit employers, under the State plan, from insuring with a private insurance company. I think that provision ought to come out of your plan. If you do not take it out, you upset the whole plan in Wisconsin, where they are all permitted to insure.

Lastly, I think you ought to make such exceptions in your legislation as will protect the situation in Wisconsin. Those people there, the State itself and the employers in that State, ought not to be penalized because they passed an act that won't exactly meet the standards in this act. I think you should have a provision in this act to protect, for a period of 5 years, at least, the situation as it stands in Wisconsin.

Mr. LEWIS. Of course that would hog-tie the other 47 States until the legislation was passed in Wisconsin.

Mr. GALL. Why? I do not think so. I think, if your theory is right, that the other States are delinquent in not acting as quickly as Wisconsin, and, if people have a right to credit for their virtues, then you ought to credit Wisconsin.

Mr. LEWIS. I do credit Wisconsin, but I am not so sure I would hold the other States delinquent when the argument would be made to the legislatures and made in all sincerity that we would be setting up disparities against their employees and employers—economic disparities.

Mr. GALL. Mr. Chairman, with just one observation, I will close because I know you are very tired listening to me.

Mr. LEWIS. No; you have made a very able presentation.

Mr. GALL. I just want to point out, and I think this is something you ought to look into, treating this as a tax bill and ignoring the unemployment insurance feature of it for the moment, that one half of the States of the Union will pay 86 percent of the tax under this bill and 12 States, including 5 which are represented on your subcommittee I believe, will pay 68 percent of the tax. That shows you, as among the States, the inequality of the burden, and although it is argued that if you do not have your uniform unemployment insurance legislation, you have people exposed to unfair competition. I want to point out that with this tax you have a great group of States exposed to a very unfair form of competition, in the sense that they carry the burden of this tax for the rest of the States.

I thank you very much.

Mr. LEWIS. We thank you for your very able presentation.

(Thereupon, at 11:55 p.m., the subcommittee adjourned until until tomorrow, Friday, Mar. 30, 1934, at 11:00 a.m.)

UNEMPLOYMENT INSURANCE

FRIDAY, MARCH 30, 1934

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The subcommittee met at 11 a.m., Hon. David J. Lewis (chairman) presiding.

Mr. LEWIS. The subcommittee will resume its consideration of H.R. 7659.

The first witness this morning is Mr. Denby, of Philadelphia. Will you please give your name, your residence, and state your relation to the subject matter under discussion.

**STATEMENT OF CHARLES DENBY, JR., PHILADELPHIA, PA.,
CHAIRMAN COMMITTEE ON UNEMPLOYMENT INSURANCE
LAW, AMERICAN BAR ASSOCIATION**

Mr. DENBY. Mr. Chairman, my name is Charles Denby, Jr.; I live in Philadelphia.

I am appearing before this committee as chairman of the committee on unemployment insurance law of the American Bar Association.

Mr. WEST. You are a member of the Philadelphia bar?

Mr. DENBY. Yes, sir. This committee to which I have referred was organized after the 1933 annual meeting of the American Bar Association, and since that time its members have been studying the various proposals for unemployment insurance or unemployment reserve legislation which have been advanced in the various States. Although I cannot, of course, speak for the membership of the bar association, I can speak for the members of the committee I have referred to.

I also had occasion to give the subject intensive study at an earlier date. In November 1932 I was appointed by the Governor of Pennsylvania as a member of the Pennsylvania State Committee on Unemployment Reserves, and was elected chairman of that committee by its members. That committee was to make a study of the subject of unemployment insurance or unemployment reserves and to report to the Legislature of Pennsylvania.

No one could fail to approach a study of the problems of unemployment with the most sympathetic attitude. At the time I was appointed to the Pennsylvania commission, I was inclined to favor unemployment insurance, or reserves. It seemed a logical and obvious way to deal with the problem of unemployment.

The commission spent several months in intensive study of unemployment insurance and reserves. It had the benefit of findings and reports of commissions which had previously been appointed in

Wisconsin, Ohio, New York, Minnesota, Connecticut, and Massachusetts; of the Preliminary Report and the Final Report of the Royal Commission on Unemployment Insurance; and of the studies and opinions of numerous economists and other experts.

The more I have studied the question the more firm has become my conviction that unemployment insurance is an unsound remedy, the benefits of which are wholly insignificant compared with its inherent defects.

The purpose of the bill now before the committee is to bring about the enactment of unemployment insurance or reserve legislation in all of the States. The bill does not purport to be an emergency measure; and yet, without the benefit of this justification, it attempts, by a mere act of Congress, to affect the permanent policy of the several States with respect to the controversial problem of social insurance.

It has always been supposed that in matters of this sort, the States should not only be autonomous, but also that the Nation should have the benefit of experiments in what the late Senator Morrow aptly referred to as the 48 laboratories of the several States, before adopting for the entire country a novel measure of vast importance. This is a question to which I shall take the liberty of reverting at a later point in my discussion.

I should like first to address myself to the merit of the principle underlying plans of unemployment insurance or reserves, the adoption of which this bill seeks to bring about.

And that, gentlemen, is the nub of this entire question, because it seems hardly useful to legislate, if the remedy to be embodied in the legislation will not provide substantial relief, but, on the other hand, will raise serious problems.

I may say I listened with intense interest to the excellent statement made by Mr. Gall last night, which I hope the members of the committee who were not present at that time will read.

Mr. Gall stated a good deal of what I think about it, and I will not repeat what he said.

I would like, however, to endorse what he said and call to your serious attention the very fundamental problems that he pointed out are involved in legislation of this sort.

I will address myself to a consideration, primarily, Mr. Chairman and gentlemen, of the two principal arguments which are usually advanced in favor of legislation of this sort.

It is claimed by the advocates of these plans that they will not only provide a predetermined system of unemployment relief, which will largely do away with—and I repeat, which will largely do away with—the present form of private and State relief, and afford a dignified provision for regular workers, but that they will even tend to remedy the defects in our present economic system which cause unemployment. They maintain that such plans will do something to prevent a recurrence of depressions in the future, first, by providing an incentive to the employer to regularize his operations, and, as a result, to forestall overexpansion, and, second, by arresting declining business activity and employment through the establishment of large reserves from surplus earnings in good times, which, when distributed as benefits in times of slack employment, will provide a reservoir of purchasing power.

Any plan which gives real promise of relief to society and to the individual should have the support of all. At the same time, a heavy burden of proof must of necessity rest upon those who propose for enactment into law any plan having such far-reaching consequences and subject to such grave possibilities of abuse.

A study of the facts and of the history of the agitation for the adoption of these plans lead to the conclusion that the advocates of compulsory unemployment insurance or reserves have not given adequate consideration to the vital objections and difficulties inherent in these plans. And this is important, may I submit, gentlemen. They have argued from the present situation of distress, suffering, and demoralization as a premise, to the conclusion that one or another of the plans they advocate should be adopted. Before accepting this conclusion, I am of the opinion that the problem and the proposed solutions must be approached realistically, without prejudgment, and with the recognition that a desire to do something will not, of itself, justify the adoption of any plan.

The starting point of any profitable discussion of the subject must be a consideration of the sources and nature of industrial employment.

The most essential fact about unemployment, and a fact not always recognized, is that it is not uniformly distributed over all lines of industry. While it is popularly supposed that unemployment affects all industry more or less equally, this is far from the truth.

The fact is that unemployment in the consumption goods industries, those which provide the goods that are consumed in the daily processes of living, food, clothing, tobacco, gasoline, fuel for domestic purposes, and other similar products, is comparatively negligible even in the depths of a depression; whereas, well over one half of the workers normally engaged in the production of durable goods, buildings for domestic and commercial use, bridges, railroad equipment, machinery, automobiles, and the like, were unemployed in 1932 and 1933. A more careful analysis is necessary properly to understand this important fact.

And I must apologize if I am repeating what the members of this committee already know, but I think it is most important, Mr. Chairman, that this should go into the record, because I am certain from my own experience that the facts to which I am about to refer are not generally appreciated.

Those engaged in gainful occupations may be divided, more or less accurately, into two great groups, those who produce goods and those who produce services. This has been pointed out many times, but Col. Leonard P. Ayres, who has made a very careful study of occupation and unemployment statistics, has recently published a book entitled "The Economics of Recovery", and I shall use his figures throughout this discussion.

He has shown that of nearly 49,000,000 people shown by the 1930 census to be normally engaged in gainful occupations in this country, almost 26,000,000 are engaged in producing goods and about 23,000,000 in producing services. The former group includes those engaged in agriculture, fishing, mining, and manufacturing. The latter, those engaged in transportation, trade, the professions, domestic service and in clerical occupations.

I should like to have you make a note of those figures for the purposes of this discussion. I have them on a chart which I will show

Those who produce goods may again be divided into two major classifications. First, there are those who produce consumption goods of an ephemeral character. Normally this group comprises about ten and a half million persons engaged in agriculture, and five and a half million persons engaged in mining and in the production of manufactured goods. Second, there are those who produce durable goods of a relatively permanent character. Normally this group comprises about ten million persons.

In summary, I may say that gainfully employed persons may be divided roughly into two groups, approximately one half of the total being engaged in producing goods, and the other half in providing services.

The total number normally engaged in the production of durable goods is approximately double the number of those normally engaged in producing consumption goods.

Durable goods include, first, durable goods of a consumption character, such as dwellings, furniture, automobiles, et cetera; second, public works; and, third, facilities of a commercial or productive character. All durable goods possess certain distinctive characteristics which are material in the present discussion.

I shall revert to this later, but I want to point out wherein the durable goods are essentially different from consumption goods.

In the first place, they are not destroyed by use, but only by long wear, obsolescence, or accident. This relative permanence is the basis of their second characteristic, namely, that they are available as collateral for credit. It is a fact that they are usually acquired with credit and paid for with savings. The third essential characteristic of durable goods is that the demand for them is very elastic.

When every one is confident as to the future, credit is generally available at reasonable cost, and there is always a rapid expansion in the demand for durable goods. This is true not only as to durable goods of a consumption character, such as automobiles, housing, furniture and the like, but also as to investment in facilities for production and commerce.

At such a time, individuals feel certain of their jobs and confident of improvement in their position, and, therefore, readily buy on credit homes, automobiles, and other similar goods, confident that they can pay out of future earnings.

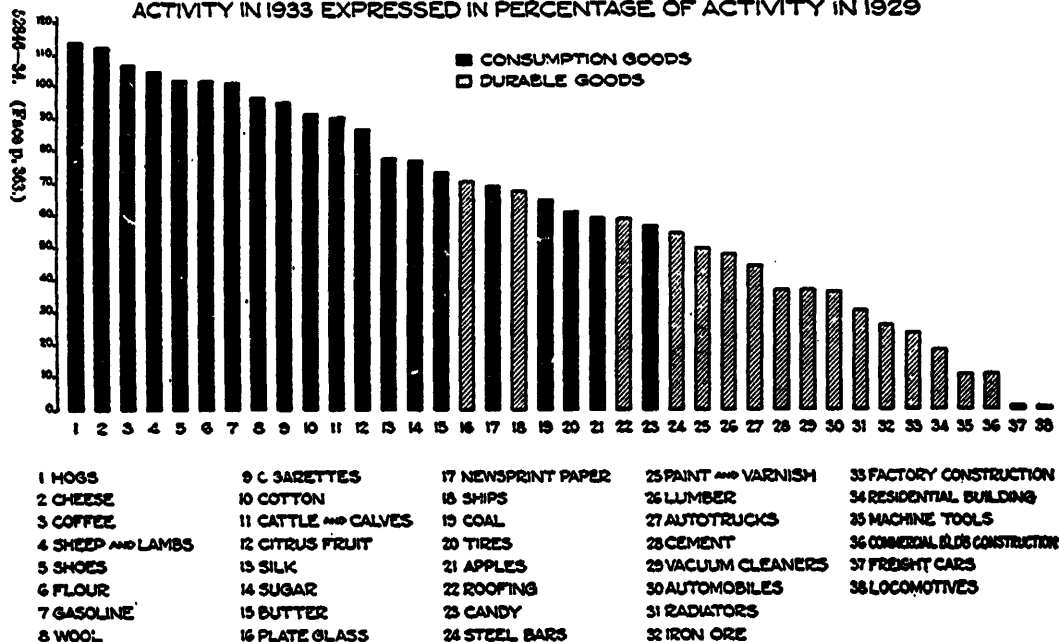
Conversely, individuals will do without such goods in periods of general lack of confidence and restricted business activity. So also, during the upward turn in the economic cycle, facilities of a commercial or productive character are more rapidly produced and paid for with credit, which it is anticipated will be liquidated through earnings. Conversely, during the down turn of an economic cycle, goods of this character are produced at a substantially reduced rate.

The important fact to be noted is that these considerations apply practically not at all to ephemeral consumption goods.

As a consequence, consumption goods continue to be produced and consumed at nearly normal volume, even during periods of deep depression, during which the production of durable goods is greatly diminished. At the extreme low point of this depression, which occurred in 1932, the aggregate of consumption goods output, after holding up relatively well, had declined only about 25 percent from normal, while the durable goods output had fallen about 75 percent from normal, having declined drastically at the very beginning of the

CONSUMPTION GOODS vs. DURABLE GOODS

ACTIVITY IN 1933 EXPRESSED IN PERCENTAGE OF ACTIVITY IN 1929



CALCULATED FROM FIGURES PUBLISHED IN "SURVEY OF CURRENT BUSINESS" ISSUED BY THE U.S. DEPT. OF COMMERCE.

MAR 29, 1934.

This is strikingly illustrated by the table I have here which I would like to submit, in which the volume of activities during 1933 in certain leading industries is compared with activities during 1929. The figures in the table, which are also shown on this chart, are calculated from those published in "Survey of Current Business", issued by the United States Department of Commerce. They relate to volume in all cases except candy manufacture, factory construction and commercial building construction, in which the figures relate to dollar volume.

Mr. COCHRAN. I wonder if it will be possible to have that chart inserted in the record.

Mr. DENBY. I would like very much to have it inserted if it could be, because it illustrates better than any table could the facts I am about to discuss, and I should be delighted if you would allow me to have a pen-and-ink drawing made which will produce the same effect as the colors.

Mr. COCHRAN. Mr. Chairman, I ask unanimous consent that that be done, and that Mr. Denby be permitted to insert the chart in such a place in his remarks as he may desire.

Mr. DENBY. I suggest that it be inserted at this point.

Mr. LEWIS. Without objection, that consent is granted.

(The chart above referred to is as follows:)

LETTER AND TABLE FROM CHARLES DENBY, JR., PHILADELPHIA, PA.

STRADLEY, RONON, STEVENS & DENBY,
Philadelphia, April 10, 1934.

COMMITTEE ON WAYS AND MEANS,
House of Representatives, Washington, D.C.

GENTLEMEN: When I appeared before the Lewis subcommittee to testify on the subject of H.R. 7659, relating to unemployment insurance, the committee requested me to submit figures with respect to the cost of public social services in Great Britain. I now enclose the information requested, with the suggestion that it be made part of the record, toward the close of my testimony.

Will you please insert a statement to the effect that these figures have been prepared by the National Industrial Conference Board.

Very truly yours,

CHARLES DENBY, JR.

Cost of public social services in Great Britain, 1911, 1919 to 1932

[In millions of pounds sterling]

Approximate year ended Mar. 31	Cost to State and local authorities							
	Old-age pensions	Widows', orphans' and old-age contributory pensions	War pensions	Unemployment insurance ¹	Poor relief	Health insurance	Other health services ²	Education
1911	7.4				15.3		2.1	31.8
1919	14.4		48.8	1.0	19.2	8.3	3.4	47.0
1920	15.5		94.5	0.9	24.8	10.2	4.8	65.3
1921	20.8		101.0	3.1	33.2	11.7	6.8	84.5
1922	22.0		88.9	11.3	43.9	8.4	10.0	87.8
1923	22.4		76.0	12.0	44.2	6.9	9.5	84.2
1924	24.0		69.4	12.8	39.4	7.1	8.7	80.2
1925	25.8		66.4	13.2	38.0	8.1	8.2	82.4
1926	28.0		63.9	13.5	41.5	7.1	8.6	84.7
1927	30.9	4	60.2	10.8	52.2	7.6	9.4	85.4
1928	33.7	4	56.9	12.0	43.1	7.1	9.7	86.8
1929	34.9	4	54.0	12.0	41.5	7.6	10.1	89.0
1930	35.8	4	51.4	19.4	41.8	7.3	10.4	92.2
1931	37.5	9	49.2	35.5	39.5	7.1	10.7	95.5
1932	38.6	10	47.0	49.6	38.3	6.2	12.7	94.5

¹ Includes transitional payments.

² Hospitals and treatment of disease, and maternity and child welfare; cost of the latter in England and Wales in 1910-11 not available.

Cost of public social services in Great Britain, 1911, 1919 to 1939 (Continued)

(In millions of pounds sterling)

Approximate year ended Mar. 31	Cost to State and local authorities					Remain- der cost ²	Aggra- vated cost
	Handling of the unemployment classes	Other services ¹	Total cost to State	Total cost to local authorities ³	Total cost to State and local authorities		
1911	0.4	2.1	26.4	20.0	20.4	1.7	68.0
1919	5	1.7	36.0	15.8	104.1	11.4	174.8
1921	3	2.1	182.2	26.2	218.4	17.4	268.7
1923	7	2.6	100.6	21.1	204.0	17.0	119.2
1925	0.8	2.0	100.4	20.0	217.7	22.3	200.0
1927	0.6	2.3	126.1	20.0	217.1	27.0	166.8
1929	0.1	1.5	118.4	28.0	231.3	26.7	110.0
1931	0.6	0.9	126.4	10.1	255.7	21.4	217.0
1933	10.2	0.8	126.1	25.8	262.0	21.0	248.0
1935	11.0	0.6	129.1	27.0	276.4	22.1	259.5
1937	12.4	1.1	141.1	20.1	271.8	112.8	383.1
1939	15.4	0.8	141.4	10.0	271.7	127.7	399.4
1941	18.4	0.6	148.0	21.2	262.2	141.4	403.6
1943	16.1	1.7	20.0	106.1	126.8	150.8	481.6
1945	17.0	0.8	211.1	102.0	319.1	181.0	499.1

¹ Factory, mental deficiency, tuberculosis, and industrial schools, etc.² Defrayed out of rates except that the 1920-21 and 1921-22 figures include an unknown amount derived from block grants made by the State under the local government act, 1920.³ Defrayed out of: Advances by the Treasury to the unemployment fund, which on Mar. 31, 1932, had reached a total of £13 millions (£1 to £2 millions incurred in 1921-22 and £10 millions in 1922-23), contributions of employers and employed (unions), etc.; pensions and unemployment and health insurance revenue from employers, voluntary contributions, teachers' superannuation contributions, etc. (before that, rents, clothing, etc.)

Mr. DENNY. I should like to point out, Mr. Chairman and gentlemen, that this chart indicates a comparison of activity, expressed in almost every case in volume, the only exceptions being the figures as to candy manufacturers' sales, factory construction and commercial building construction, which are expressed in dollars. As I said, these figures are based upon figures taken from the "Survey of Current Business", issued by the United States Department of Commerce.

Mr. LEWIN. You have a statistical table accompanying the chart?

Mr. DENNY. I have.

Mr. LEWIN. A statistical table, with percentages, it seems to me, would be much clearer than a chart.

Mr. DENNY. The chart is more graphic. I shall ask to submit those figures and have them made a part of the record.

(The table above referred to is as follows:)

Changes in activity of consumption goods and durable goods, year 1944, as compared with year 1939 as 100

Consumption goods	Percent
Hops, slaughtered	113.0
Cheese, consumption	112.1
Coffee, United States imports	100.0
Sheep and lambs, slaughtered	101.1
Wheat, production	101.0
Flour, wheat, consumption	101.3
Clothing, consumption	101.0
Wool, raw, consumption	99.3
Cigarettes, withdrawals	98.1
Cotton, raw, consumption	91.8
Cattle and calves, slaughtered	90.2
Citrus fruit, carload shipments	80.0

Changes in activity of consumption goods and durable goods, year 1933, as compared with year 1929 as 100—Continued

Consumption goods—Continued.	Percent
Milk, raw deliveries	77.8
Sugar, raw, millings, & posts	77.0
Butter, consumption	73.4
Newsprint paper, consumption	69.2
Coal, anthracite, shipments	61.7
Flour, cargo, shipments	60.8
Apples, export shipments	58.8
Candy, manufacturers' sales	50.4
Durable goods:	
Plate glass, production	70.8
Ships, built, merchant	67.0
Hoisting, prepared, shipments	58.6
Steel bars, cold, shipments	51.0
Paint and varnish sales	49.7
Lumber, southern hardwood, shipments	47.0
Auto trucks, production	44.2
Cement, shipments	39.3
Vacuum cleaners, shipments	39.2
Automobiles, passenger, production	36.8
Radiators, heating, shipments	36.0
Iron ore, consumption	28.8
Factory construction	23.2
Residential building, area	17.8
Machine tools, shipments	19.2
Commercial building construction	19.2
Freight cars, built	0
Locomotives, steam, built	1

On the chart the columns which are cross-hatched or shaded represent activity in the durable goods industries in 1933, expressed in percentages of 1929. The black columns indicate activities in consumption goods industries expressed in percentages of 1929.

You will see that the consumption goods industries are almost entirely out of proportion on the chart, if I may say so, and that the activities in the consumption goods industries in 1933, as compared with 1929, in no case went below 50 percent. In fact, the lowest was candy, manufacturers' sales, 50.4 percent of 1929. Whereas, when you get down here [indicating on chart] to the durable goods industries, you get figures as low, for instance, as those covering the construction of steam locomotives, where there was a maximum of four tenths of 1 percent of the 1929 activity. I should point out, however, gentlemen, that the 1929 activity in that industry was lower than the activity in earlier years. The figure for freight car building tenths of 1 percent. Item no. 37 on the chart represents freight cars, where the figure, as I have said, is nine tenths of 1 percent.

For commercial building the figure on the chart is approximately 19 percent.

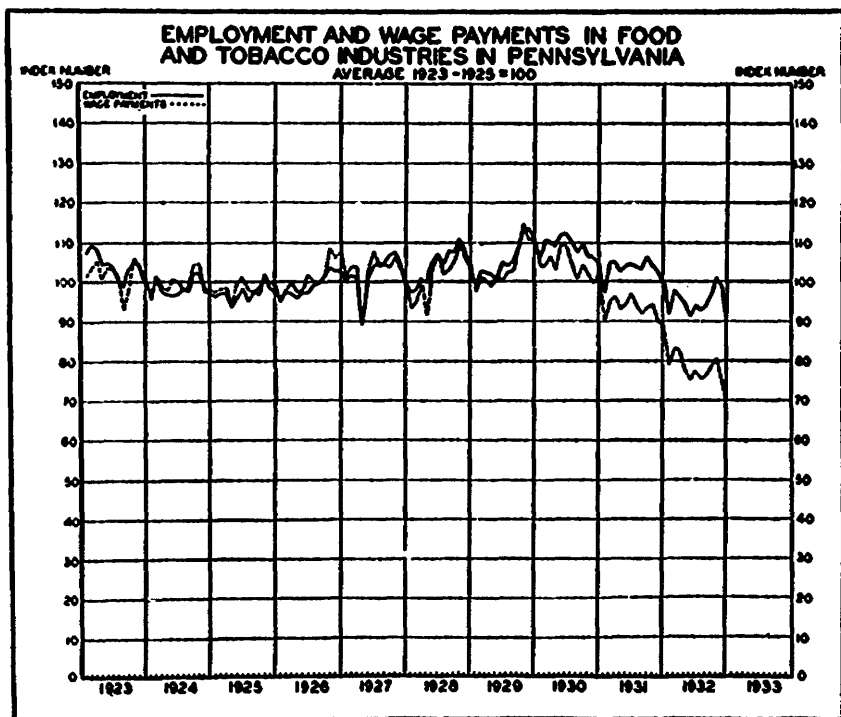
The highest figure for durable goods is that for plate glass production, for which the figure on the chart is 70 percent of 1929. That is an unusually high figure for any durable goods industry.

The next figure is no. 18 on the chart, covering the production of merchant ships, but that is not a correct reflection of the true situation, because it is expressed in percentages of 1929, and in 1929 the activity in that field was lower than the so-called "normal", accepting the average for the period from 1923 to 1929 as normal.

But the important fact is that twice as many gainfully occupied persons are normally occupied in the industries which, during the

depression, fell to an average of 75 percent less than the assumed normal.

What I would like to point out to members of the committee is that the witnesses who have appeared in favor of unemployment insurance or reserves, and the witnesses who have testified that they had private systems and that they had attempted to regularize, and had to a large extent regularized their operations, are all in the industries which are of a consumption character, with minor special exceptions, as in the case of Mr. Leeds, or very small and very specialized industries. For instance, Mr. Draper represented Hills Bros. Co., and favored the adoption of measures of this kind, but he is in the business of packing food products, primarily dates.

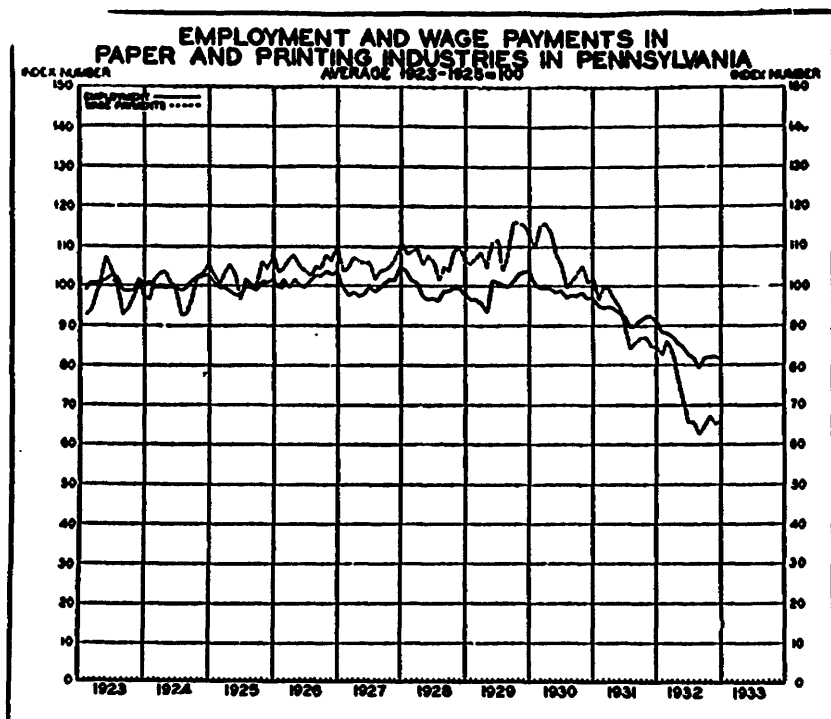


I would like to cite the activity in 1933 in certain food industries as compared with 1929, and if you will examine those figures you will see what was the production of hogs, cheese, coffee, sheep and lambs, and flour; and then further down you will see the figures for milk and sugar. Those are all to the left of item no. 13 on the chart, namely, the item representing sugar, which still is 77 percent of the 1929 figure, whereas coffee, hogs, and cheese are all over 100 percent of 1929.

These facts, of course, directly affect the amount of employment in the various industries. In the report of the Pennsylvania State Committee on Unemployment Reserves, of which I was chairman,

are published charts with respect to employment and wage payments in principal industries in Pennsylvania, which strikingly illustrate the same situation. Thus, the chart relating to unemployment fluctuations in the food and tobacco industries indicate fluctuations in employment well within 10 percent of the 1923-25 "average." And I point out, Mr. Chairman, that these figures now are figures of employment and not figures of volume of business. I use the word "average" in quotations, because that is the assumed normal average of those years.

Even in 1932 average employment was about 95 percent of the 1923-25 average. Similarly, in the paper, printing, leather, and



rubber industries, all of them consumption-goods industries, there is little fluctuation over a period of years; and even in 1932 employment was well over 80 percent of the average.

As compared with this, the chart relating to the stone, clay, and glass industries, producers largely of durable goods, indicates that the downward trend in employment was under way in 1927; and employment did not exceed 60 percent of average after the close of 1930. In 1932 it fell below 50 percent of average.

In the lumber industry, a typical durable-goods industry, the drop in employment after 1920 was precipitous; and by the close of 1932 the employment had fallen below 40 percent of average.

Mr. FREAR. Are those represented on this chart [indicating the chart "Consumption Goods vs. Durable Goods"]?

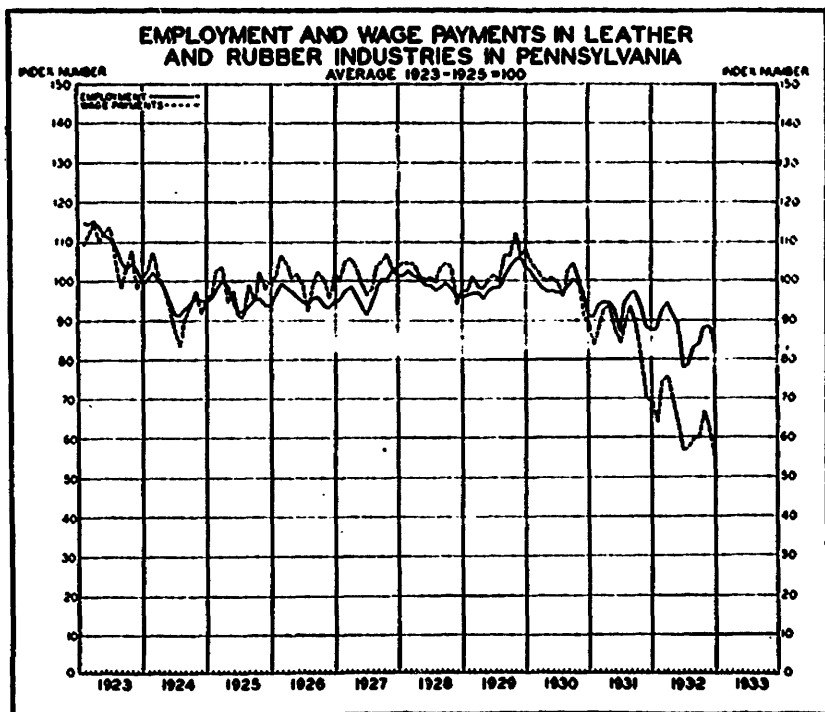
Mr. DENBY. No, sir; those are figures for the United States as a whole. Those I have been quoting are for Pennsylvania.

Mr. REED. That chart indicates production?

Mr. DENBY. The volume of production. The figures I am now reading from Pennsylvania indicate employment.

Mr. REED. Would you mind putting those charts in the record, if it is agreeable to the chairman?

Mr. DENBY. I will be glad to do that. I will be glad to submit the cuts, if you would like to have them to be reproduced in the record.



The CHAIRMAN. Without objection, the permission is given.

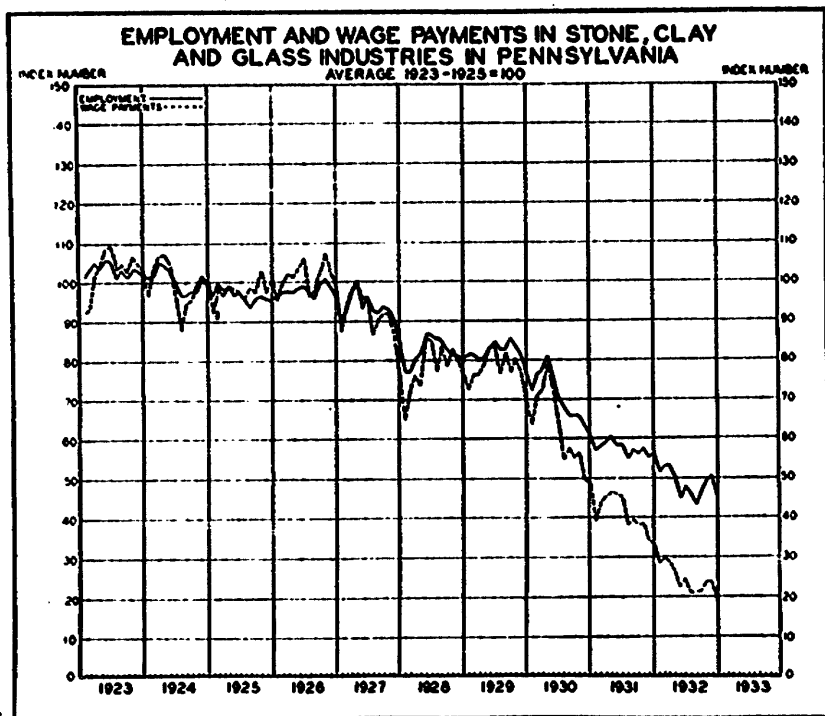
Mr. DENBY. As I have said, the metal industries, normally employing about one fourth of the total workers in all manufacturing industries in Pennsylvania, show a similar situation, with a precipitous drop beginning in 1929, and employment in 1932 averaging little over 50 percent of average.

The transportation-equipment industries, another important industry group in Pennsylvania, provide another example of the wide fluctuation in the output of durable goods. This group includes the manufacture of automobiles, automobile bodies and parts, locomotives and cars, railroad-car repair, and shipbuilding. At the close

of 1933 employment in these industries had fallen to 40 percent of average.

A similar situation prevailed in the construction and contracting industry, one of the most irregular of the group of durable goods industries.

The following table gives comparative figures relating to unemployment for the United States as a whole, in the various groups, as of March 1933 and January 1934:



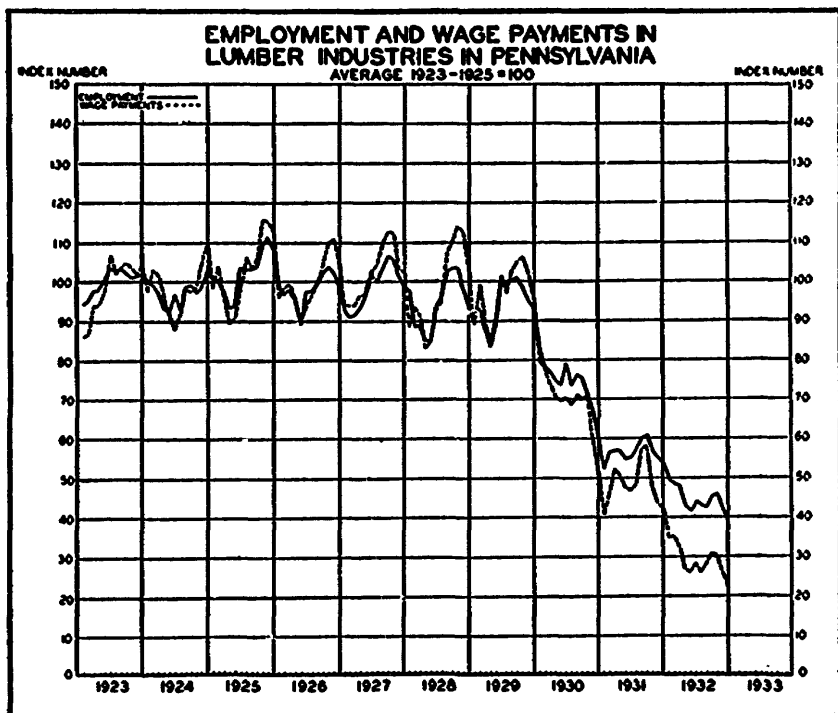
	Normally em- ployed, 1930 census, in millions	Unemployed March 1933		Unemployed January 1934	
		Millions	Percent of group employ- able	Millions	Percent of group employ- able
Services.....	23.0	5.9	26	4.4	19
Agriculture.....	10.5	0	0	0	0
Other consumption goods.....	5.6	1.6	27	1.0	18
Durable goods.....	10.0	6.4	64	5.1	51
Total.....	49.0	13.8	28	10.5	21

At the left of the table you will see the figures for those gainfully employed in all industry in the United States as of the 1930 census. Those are the figures I mentioned before, but they are well to bear in mind.

You will note that there were producers of service, 23,000,000, and producers of goods, a total of 26,000,000, divided into 10½ million in agriculture, 5½ million in the manufacture of other consumption goods, and 10 million in the manufacture of durable goods.

You will also note as to unemployment in March 1933, in the service industries, there were 5.9 million unemployed, or 26 percent of all employables in that group.

In agriculture there was no unemployment in the sense that agricultural workers at least have a living, and you could hardly calculate unemployment in that industry, and that is not intended to be covered by the present bill.



You will also note that in the manufacture of consumption goods there were 1½ million unemployed in March 1933, and the unemployment in the durable-goods industries was almost 6½ million, or 64 percent of those normally engaged in durable-goods production.

The striking thing about these figures is that unemployment in the durable-goods industries was about half of all employment in January.

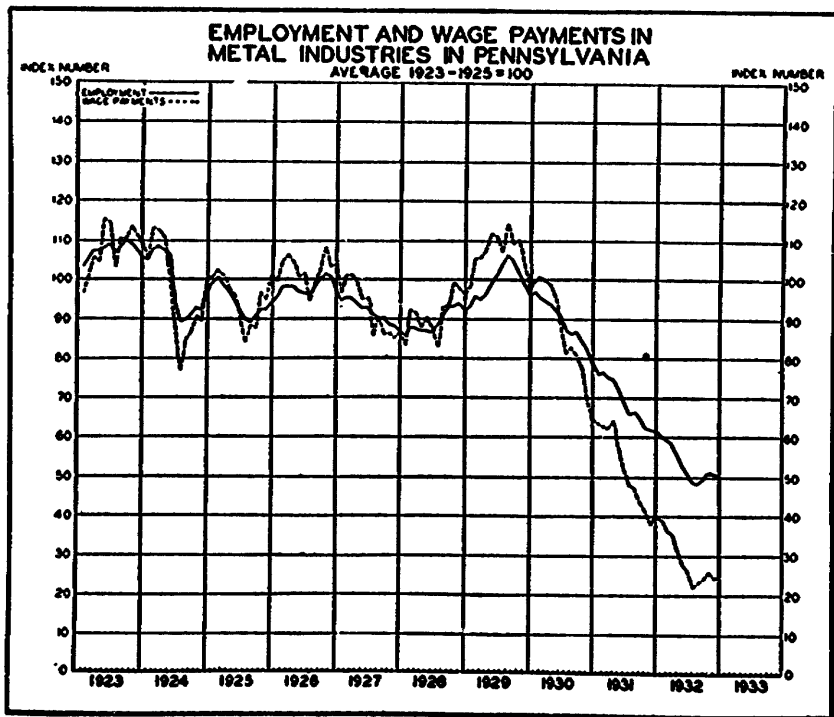
The figures for 1934 indicate a substantial improvement in both service and consumption-goods industries, but not so great improvement in the durable-goods industries, where it was 51 percent of those normally engaged in those industries.

Now, I have only laid the basis of my argument.

It is evident that unemployment among the producers of durable goods is the key to the entire problem of unemployment; for not only do they constitute a vast body of unemployed, but it is their unemployment that causes the unemployment among those who normally are engaged in providing services.

Colonel Ayres has calculated that it may be assumed that approximately one person engaged in the service industries would be re-employed for each person reemployed in the durable goods industries. It would require more transportation, a greater number of telegraph messages, more clerks, and would mean greater employment.

In the light of what I have said, let us consider the principal arguments for unemployment insurance. They are three. First, that



unemployment insurance or reserves, with rates of contributions proportioned to unemployment experienced within individual enterprises—and by that I mean allowing employers whose employment is regular to reduce their payments into the fund, and has been advocated in every case, and the principle of which is embodied in the present bill—will tend to regularize operations through the imposition of a penalty upon irregularity.

I have read the transcript of the testimony of the first 3 days of the hearings on this bill, and heard the testimony given at the hearing yesterday. The Secretary of Labor emphasized the tendency of these measures to promote regularization of employment, as one of the

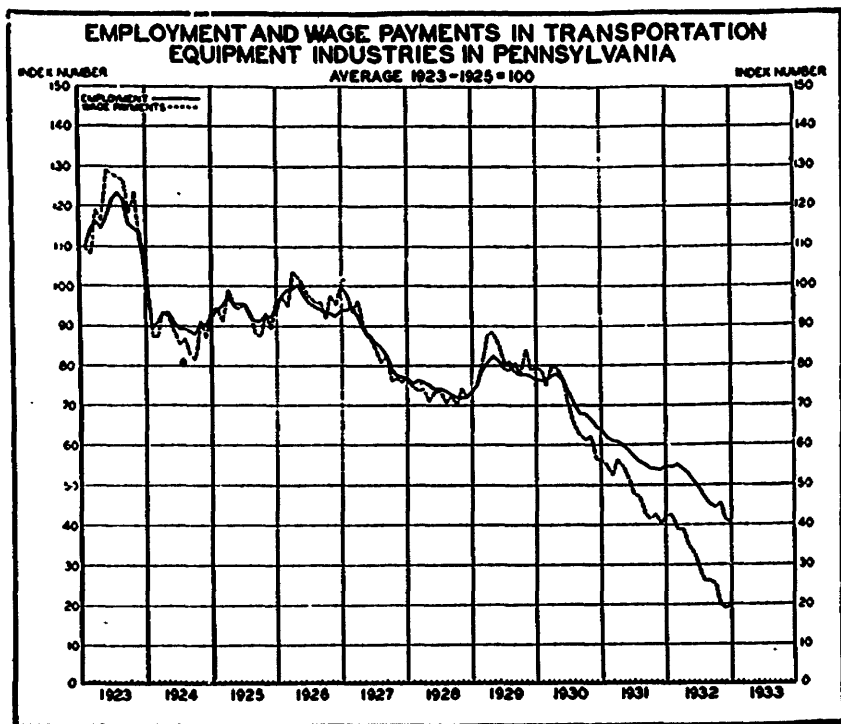
greatest arguments. Mr. Draper, who favored this measure, favored it for the same reason.

Mr. LEWIS. Miss Perkins based her argument upon the experience in foreign countries, did she not?

Mr. DENBY. Yes, partly. It would extend my comment too long to go into that. I would like to refer you to the statement made in the hearing last night by Mr. Gall, and also the statement made by Professor Todd on that same question.

Mr. LEWIS. It seemed to me that might have a very important bearing on this situation.

Mr. DENBY. I shall later refer to it insofar as it bears on the argument I am making.



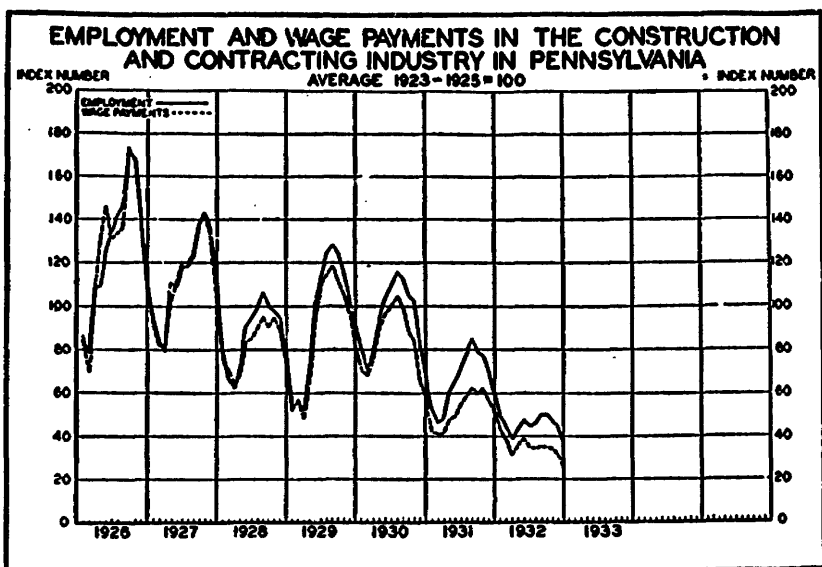
The second principal argument for unemployment insurance is that the accumulation of an insurance or reserve fund, from which payments are made in times of unemployment, will provide a reservoir of purchasing power, the use of which will tend to lessen fluctuations in business by maintaining consuming power. Senator Wagner, speaking of the pending bill, stated that the "greatest merit" of unemployment insurance is that it would "tend to minimize if not to abolish, the likelihood of depression."

The Secretary of Labor also emphasized this argument very emphatically.

Mr. Douglas, one of the authorities on this subject, emphasized that as one of the principal considerations and referred to the fact, as did Mr. Epstein, that in their opinion the fact that the depression in Great Britain had not gone as low as it had here was due to the fact that unemployment insurance or the dole had maintained or provided a reservoir of purchasing power which improved the situation, or prevented it from getting worse.

I am firmly convinced, Mr. Chairman and gentlemen, that both of those arguments are entirely unsound as applied to these measures, and I hope to be able to demonstrate that, at least to the point of perhaps shaking the conviction of those already convinced that these measures should be adopted throughout the United States.

The third principal argument for unemployment insurance that is advanced is that the grant of benefits as a matter of right—by



virtue of an implied insurance contract—is preferable to the granting of relief proportioned to need, as the only self-respecting way of dealing with unemployment.

I shall discuss these arguments in the order in which they are stated.

One of the primary claims of advocates of compulsory reserves is that they attack the problem of unemployment at its roots, by stimulating regularization of operations through the imposition of a penalty upon irregularity. An employer who could regularize his operations and limit unemployment would benefit by making reduced contributions into the insurance or reserve fund. This principle is incorporated in the pending bill, in section 2 (b) (2).

But the control of the employer over the regularity of his operations is most limited, at best, however. It is very different from his control over industrial accidents, within his own plant. Regularity of opera-

tions is mainly dependent upon circumstances and conditions over which the employer has little, if any, control; the volume and availability of capital and credit; changes in style and in consumers' demands; tariff changes; fluctuations in foreign exchange; and the myriad other economic factors involved in our complicated economic system.

In some of the more regular consumption goods industries, it may be possible somewhat to flatten the curve of production by stimulating off-season sales, simplifying the line, scheduling production more closely, adding complementary lines, manufacturing for stock and resorting to numerous other expedients. But the management of industry is already fully aware of the business advantages of such stabilization, and already makes every effort to attain it wherever possible.

I should like to point out that in the testimony of the witnesses whose testimony I have read, particularly that of Mr. Folsom, representing the Rochester industries, and Mr. Swope, they argued that regularization was possible, and had, to a large extent, been achieved. That same statement was made by Mr. Draper.

I point out, however, the statement of Mr. Folsom to the effect that their sales estimate made either at the conclusion of the preceding year or in January of the year 1933, was within 2 percent of their actual sales.

I point out that the production of the Eastman Kodak Co. was of consumers goods entirely, kodaks and supplies.

I point out the fact that the General Electric Co.'s plan, according to the testimony of Mr. Swope, was adopted in one of their plants some years ago, namely, in the plant where incandescent lamps are manufactured.

Again, that is an industry in which consumption is more or less predictable and more or less regular.

They have now undertaken to apply it in their electrical appliance department, which is a somewhat different thing from attempting to apply it in a plant manufacturing electric turbines or electric locomotives, or other items of definitely capital goods.

Regularity of operations in the service industries is entirely outside the control of the individual enterprise. From its nature, no service can be performed in advance of demand. No telegram can be sent until there is a sender who wants it transmitted. Restaurants, hotels, places of amusement, transportation and trucking concerns produce nothing in advance of present demand.

There is no possibility of regularizing employment in service industries, and that is a fact which has not been recognized, although unemployment in the service industries represented $4\frac{1}{2}$ million in January 1933, and 6 million during the depression.

In most of the durable goods industries, regularity of operation is almost entirely beyond the control of the employer. The great bulk of durable goods cannot be made in advance of purchase agreements, because most of such goods are made to order, to perform a given function and to fit a given set of conditions determined upon only at the time of consumption. A building or a bridge cannot be produced in advance of someone wanting it at a certain place and of certain specifications.

Some of the building materials may be so produced, but only to a very limited extent.

In the durable goods industries, fluctuations in the volume of production are, as has already been indicated, the result largely of the ebb and flow of savings seeking profitable investment, a circumstance clearly outside of the control of any individual employer or group of employers.

These elements are wholly outside the scope of management in industry. The imposition of a cost factor to penalize irregularity in these industries will, therefore, be ineffective in bringing about the desired result.

And for that reason, I would like to call attention to certain statements I have noticed in the course of the present testimony.

I noticed a statement of the chairman to the effect that "because of carelessness or indifference on his part he, the employer, has a seasonal trade." That may apply in a limited extent.

Mr. LEWIS. You have not got it correct. I did not make a statement as inaccurate or uninformed as that.

Mr. DENBY. I merely have the galley proof.

Mr. LEWIS. If you wish to argue it, I will simply have to get it correct.

Mr. DENBY. I think it will be well to have it correct, because I do not believe the statement is a fair one.

Mr. LEWIS. Certainly not as you have stated it.

Mr. DENBY. The discussion was as to the employer regularizing his operations, and your question was whether that be his fault, giving a hypothetical case of reducing employees from 500 on half time to 250 all the time. That was in the discussion with Mr. Douglas.

As reported in the galley proof, I find the following statement from you:

Let me be concrete. Because of carelessness or indifference on his part, he has had a seasonal trade. He employed 500 men for 6 months.

Mr. DOUGLAS. Yes, sir.

Mr. LEWIS. Very well. Now, it is made profitable for him to work the whole 12 months, and he can do it with 250 men.

Mr. LEWIS. That is just a supposititious, fanciful case.

Mr. FREAR. A hypothetical case.

Mr. LEWIS. Yes.

Mr. DENBY. I am willing to concede it, if it is clear that it is a fanciful case.

My contention is that the conception that that condition of employment is due to carelessness or indifference on the part of the employer can be correctly applied to so small a percentage of unemployment as practically to misrepresent the real fact.

It cannot apply to a service industry; it can hardly apply to an industry—let us take no. 38 on the chart, in reference to the manufacture of locomotives, or no. 37, in reference to the manufacture of freight cars.

There is no way in which the manufacturer of locomotives can make up a stock of locomotives, nor is there any way in which the manufacturer of freight cars can make up a stock of freight cars. That would be a thing that would, within a very short time, put him out of business and disrupt his entire plant. That sort of thing cannot be done.

The argument that unemployment insurance will tend to maintain purchasing power is inspired by the same faulty reasoning which

underlies the recovery features of the N.R.A., namely, the theory that industrial activity and employment can be stimulated or maintained by raising the general level of purchasing power through an artificial increase or maintenance of wages, or by the payment of benefits to those who are unemployed.

I should like to say, in order to make myself entirely clear, Mr. Chairman, that everyone, myself included, is heartily in favor of the bulk of the provisions of the N.R.A.

I would like to say, however, that I am directing my remarks at the conception that by increasing wages, by fixing economic standards, one can increase purchasing power; that, in my opinion, is not true.

There is, perhaps, a very minor element of truth there, but without going into the discussion fully, I may say that is, in my opinion, faulty. This theory is particularly fallacious when applied to unemployment insurance benefits.

It is, of course, true that our prosperity has rested upon high wages and a high level of consumer purchasing power. All production, whether of durable or of consumption goods, is undertaken in reliance upon the existence of this fact. Investment in capital goods such as factory construction and equipment is also made only in reliance upon the apparent existence in the immediate future of a steady and reliable market for the consumption goods to be produced by such equipment.

But purchasing power derived from payments out of an unemployment insurance fund is not the kind of purchasing power in anticipation of which new construction will be undertaken. Nor does the receipt of unemployment insurance benefits constitute any basis of credit such as is almost universally used in the purchase of durable consumption goods. This can be provided only by the comparative certainty of continued employment at wages sufficiently high to permit savings and a margin above what is required for necessary consumption goods and rent.

The existence of a reservoir of purchasing power in the form of an unemployment insurance fund would have not the slightest effect upon activity in the durable goods industries. Since, as has been pointed out, the problem of unemployment lies almost entirely in these industries, or is directly traceable to unemployment in these industries, it is idle to assert that the creation of a system of unemployment insurance can, through a maintenance of purchasing power, have any material effect in arresting business decline or lessening unemployment in times of depression.

That is the crux of this argument, Mr. Chairman. Assume you are in the small-loan business, one of the largest businesses in this country, financing what are known as industrial loans. Persons usually make a loan to buy an article which is not one of strictly living necessity, let us say a radio. Such articles are durable goods, and are usually purchased on credit. You would not, as an industrial banker, advance credit to a person who is on an unemployment insurance benefit. He would not be able to buy on credit. It is impossible for him to do so.

No distributor of radios or automobiles will sell to a person who is not, according to the investigation that the banker makes, securely employed at a wage sufficient to carry his living necessities and which will give him enough to liquidate the debt.

The fact is that practically all durable goods of a consumption character are purchased with credit, or purchased on the reliance on the ability of the purchaser to pay off the debt incurred.

That is why I submit that is entirely inaccurate to say that if the depression in Great Britain was not as deep as in this country it was due to the fact that they had unemployment insurance in Great Britain.

If you consider the amount of benefits paid under the unemployment insurance plan in Great Britain, you will realize that those payments can in no sense be used for the purchase of anything except the minimum necessities of life. They have no effect, and can have no effect, on the production of durable goods of a consumption character, and certainly not on the production of durable goods of a producing character.

Mr. COOPER. I wonder if that is an entirely accurate statement? The fact that those people were able to purchase the necessities of life might, to some extent, enable the people from whom they purchased those necessities of life to purchase some of the other things.

Mr. DENBY. That is not true, because the difficulty is that it is in fact merely a transfer of purchasing power from one group, which does not get the benefit of those payments to the group that does. There is no increase in the sum total available for payment.

If the employees, as in England, are assessed one third, and industry one third, at least to the extent of the two thirds, leaving out the third contributed by the Government, that money must come from somewhere. Part of it comes from the employees, the workers, who to that extent are unable to buy something else.

Mr. LEWIS. If the Government were to double my salary tomorrow, the increase in salary would simply result in freezing that much purchasing power. I would not expend it; I have not the time to spend it. I have no real desires that are not gratified with the present salary paid me.

Mr. DENBY. Your salary is in excess of \$250 a month.

Mr. LEWIS. Yes; and so was the salary of Mitchell and of Wiggin; and so is likely to be the situation when the conditions of 1928 and 1929 return, for, as Mr. West pointed out the other day, the cumulative profits of industry rose 72 percent, while wages had risen in the preceding period some 17 percent.

The money in the hands of the workman does not become frozen purchasing power. But it may be frozen purchasing power in the hands of those who are collecting it from society, whether by merit or not, more than they expend.

Mr. DENBY. That is quite true, but I submit it is not in point, for this reason.

I am not talking about frozen purchasing power; I am talking about the question of whether there is going to be available any new source of purchasing power which will encourage producers to produce.

My first point is that an employee receiving benefits is not the kind of purchaser to whom a producer of any durable goods can look for his market.

It is true he will buy food and clothing; but, in the first place, that is merely a transfer of purchasing power from someone else.

In the second place, that unemployed workman will be unable to purchase anything except the minimum necessities. These must be

purchased through relief sources. The question is, does this measure create or produce purchasing power?

Mr. COOPER. On that point: I do not think it is contended by anybody that legislation of this type will be designed, within itself, to increase purchasing power.

Mr. DENBY. I do not know whether that is your attitude, but that has been the attitude of nine tenths of the advocates of this legislation.

Mr. COOPER. I do think it is contended here, and was stated, as I recall, by the Secretary of Labor, in response to certain questions I asked her, that the principal purpose of legislation of this type is to avoid the present condition, considering the peaks and depressions. And this would have the effect of trying to smooth them out, so as to avoid those sharp changes, either up or down.

Mr. DENBY. My only answer to that, s'r, is that it is my contention that this measure—and when I say that I mean the general plan of unemployment reserves—cannot, in any material degree, cannot in any perceptible degree, affect ups and downs that are due to a myriad of very complicated causes.

I do, however, say that the advocates of these measures—and I have heard many of them discuss the subject and have discussed the subject with many of them and some of them have appeared here—the statement appears in all of the reports, without exception, favoring these measures, that there will be created a reservoir of purchasing power, the presence of which will diminish, if not prevent, unemployment.

That statement was made in its extreme form by Senator Wagner in a radio address delivered at the time this measure was introduced, and the Secretary of Labor stated, referring to the depression, that if we had been able by some device in this country to keep up purchasing power, and if there had been a reserve there, or an unemployment insurance fund, that would have provided a fund to maintain purchasing power and that it would have delayed the depression that much longer.

Mr. LEWIS. What is your contention in regard to that statement?

Mr. DENBY. My contention in regard to that statement is this, Mr. Chairman. The bulk of unemployment arises in the durable-goods and service industries. The durable-goods industries supply goods that are purchased on credit in anticipation of earnings. That applies to individuals as well as to enterprises. No factory will be built on borrowed money unless it is anticipated that the product can be sold at a profit sufficient to liquidate the debt. No individual will buy an automobile on credit, and a very large number of them are bought on credit, unless he is confident that he will be employed at a wage sufficient to give him an excess over his requirements for his minimum needs sufficient to pay for that automobile.

If that is so, then purchasing power which consists of the power to purchase the minimum necessities of life is not the kind of purchasing power which will permit the purchase of durable goods. It does not permit the purchase of anything but necessities.

If you will look on the chart you will see that necessities and the ordinary consumption goods are purchased at the time of a depression at 75 or 80 percent of normal.

You will not improve the situation of the durable industries by paying out benefits to unemployed workers who cannot use them for the purchase of durable goods.

Let us admit that they will use them for the purchase of food. If they have no other source they will get that from a relief fund. You are not creating anything new.

Mr. LEWIS. My thought is this: One man buys life insurance and he is doing it to get the annuities; he is receiving an income. Another man fails.

Of course, that man is getting an annuity, which is a well from which the funds are to be withdrawn. This man, even though that is barely enough to carry his livelihood, has a decided advantage over the man who is dependent upon public relief.

Mr. DENBY. Of course, it is a question of——

Mr. LEWIS (interposing). Just a moment. The thought is this, as I understand it, that here is a fund which is an insurance; in a way it has been contributed by the organization or individuals, the same as in the case of an annuity fund.

Mr. DENBY. That is correct.

Mr. LEWIS. Do you not see the distinction, or is there no distinction between the man who has the insurance and the man who is dependent upon public relief, even though the sum is practically the same?

Mr. DENBY. If the sum is practically the same, I submit there is no distinction; there can be no distinction.

The funds must come from a source somewhere, either from a relief fund through the sale of securities invested, which means the money is taken from someone else in that indirect way, or they come from an insurance company which does the same thing.

Mr. LEWIS. Absolutely; there is a fund which has been set apart for that purpose. In one case, admitting that they both receive the same amount, one is a case of public relief drawn from charity subscriptions, and the other is a fund set apart that anticipates the necessity of the individual.

Mr. DENBY. Yes, sir.

Mr. LEWIS. You do not see any difference between those two?

Mr. DENBY. I submit on this point there is no difference, and this point is merely that it is not possible in this way to create a reservoir of purchasing power that will keep us out of a depression, or minimize a depression, because this kind of purchasing power is not the kind that stimulates or maintains industry.

Mr. COCHRAN. You have taken issue with the proponents of this measure in their statement that the unemployment insurance system of England prevented the depression in England reaching the depth of the depression in the United States.

Mr. DENBY. Yes, sir.

Mr. COCHRAN. What are your views as to the reason why the depression in England did not reach the depth of the depression in the United States?

Mr. DENBY. Of course, that is a question which can lead us far afield; but in a brief summary, I should say the principal causes were a better banking system and less speculation on the stock market. I think it had infinitely more to do with the situation in Great Britain than unemployment insurance.

We have to go into the field of credit, credit regulation and credit expansion or contraction to find the sources of irregularity far more than we have got to look to the field of unemployment insurance,

which is wholly negligible, and has been wherever it has been applied.

There are other theoretical ways of the regularizing of industry, but I submit they are theoretical.

If you are willing to submit to a completely regulated society in industry, with a central, absolutely autocratic control, it is perhaps true that you can achieve regularization. I cannot argue that. It may be true. It has never been tried anywhere in the world on a sufficient scale or for a sufficient length of time to give any experience, but it entails a tremendous sacrifice of values that most of us in America have thought worth while preserving.

I think, as long as the chairman has interjected the thought I should like to address myself for one moment to the point of view that the chairman expressed, that we want to prevent the recurrence, if I may say so, of a Wiggin.

No one, no matter how conservative his views, has any brief to offer in support of the practices which were engaged in by some of the citizens whom some of us had looked up to as leaders in business and finance.

Mr. LEWIS. I ought to say that in using the name "Wiggin" I was simply using it as a symbol.

Mr. DENBY. I am using him as a symbol also, and that is perfectly proper. It is a convenient word of art, if you will.

Nobody questions that something should be done to remedy the gross abuses that exist. But the question that some of us who are very doubtful about the present measures being considered in Washington—the question that some of us are asking with respect to those things is, are we going to burn the barn to get rid of the rats.

Mr. FREAR. Let me suggest that Congress at this session has passed other legislation along different lines to reach that situation as soon as they can. It does not, however, bear on this question.

Mr. DENBY. I think if we were to look to a better regulation of our banking system and our credit structure, regulating by other agencies, such as the Federal Reserve, or some similar agency, we would get further along than to attempt to reconstruct our entire system without quite knowing where we are going.

Upon the other hand, the adoption of a system of unemployment insurance would probably actually intensify the very problem for which it is offered as a partial solution. The payments which will be required from employers constitute a direct charge on production. They will thus have the tendency directly to increase the cost of all manufactured articles; and this must of necessity tend to reduce production and consequently to promote unemployment.

I do not want to elaborate on that, but I refer you to the statement made by Mr. Gall last night, who treated that point quite fully. He also pointed out the inconsistency of opposing a direct sales tax of one half of 1 percent, and at the same time advocating the imposition of a pay-roll tax which, at 5 percent, would amount, at least, on an average, to 2½ percent.

Mr. LEWIS. Do you want to discuss that?

Mr. DENBY. I am willing to if there is time. But Mr. Gall treated that pretty fully.

The third main argument for unemployment insurance is that the granting of benefits as a matter of right is more in accord with social justice and the dignity of the worker than is the grant of relief as a matter of need, be it from private or public "charity."

Obviously, the goal of a society in which security will have been achieved for all is the object of civilization. Whether the present bill is a step toward that goal which does not sacrifice more than will be gained, however, is the question which must be answered.

It is my belief that measures such as the present, of necessity, will force the abandonment of the social system now prevailing in this country.

That is a statement at which some of the gentlemen who have been referred to as the "hot dogs" in Washington, and those who are in accord with them, will sneer. They sneer at any one who states that this measure or any other measure will in the course of time force the abandonment of the system under which we have been living. Then they proceed to say that if it does, so much the better, because the system was not any good any way.

I would like to point out that this is not the only measure that is either before Congress or that is certain to be adopted if this measure passes.

This measure calls for the imposition of a 5-percent tax. If the legal principle involved in this bill is sound, and I question whether it is, there is no reason on earth why those advocating old-age pensions, accident insurance, health insurance, and a number of other social insurance measures, cannot come down here with equal right and demand that Congress shall impose taxes in this or some other form, and thus compel the uniform adoption of those laws in the States.

Mr. FREAR. The plan adopted by European countries, as I understand it, includes contributions from the employees.

Mr. DENBY. Yes, sir.

Mr. FREAR. Have you discussed that?

Mr. DENBY. I am coming to that in a moment.

Each additional burden which is imposed upon production and each restriction which is imposed upon the free flow of private capital into industry brings us closer to the point at which all industry must be financed from public funds. Every such step further hampers the play of individual initiative which has been responsible for the magnificent development of this country. Nothing but the certainty of the solution of the problem of unemployment could justify taking a step with such far-reaching consequences as the enactment of unemployment insurance legislation throughout the United States.

The present proposal, however, is far from such a solution. Despite the fact that about a billion dollars would be raised every year through the contributions into the various unemployment insurance funds, the gigantic reserve which would thus be accumulated would fall far short of taking care of the total burden of unemployment. The payment of benefits under the proposed law would equal not more than between 20 percent and 25 percent of the decline of pay rolls due to unemployment. The balance must still be taken care of through the ordinary channels of relief.

It is a fair question whether the creation of a vast system of bureaucratic administration and control is justified in an endeavor to attain so comparatively inadequate a goal. But, on the other hand, there is the certainty that private industry could not bear the load which would have to be imposed upon it to accomplish a larger result; and, furthermore, there is equal certainty that as soon as the limitations inherent in the proposed system are recognized, there will be pres-

sure from organized groups for a widening of the coverage, a liberalizing of the restrictions, and an extension of the benefits in amount and in duration which necessarily will entail an increase in contributions.

The experience of foreign systems of unemployment insurance has demonstrated that the financial burden arising from an attempt to apply the principle of distributing benefits as a matter of *right* rather than of *need* is so great that the principle has had to be abandoned in apply the principle of distributing benefits as a matter of *right* rather than of *need* is so great that the principle has had to be abandoned in every case of serious unemployment. In actual practice, unemployment insurance, as insurance, has failed wherever it has been tried: what remains being the mechanism of unemployment insurance, devoted, in large extent, to the distribution of State and welfare relief; that is, the distribution of benefits to the unemployed on the basis of need.

I am not here to argue as to whether we should adopt an entirely new social system or not. I merely want to point out to you gentlemen before you report this bill out and recommend its passage, that this is merely one step in the trend which must inevitably force a change in our economic and industrial system.

That is not an alarmist statement, because it does not alarm me particularly. I can earn my living just as well under State socialism, or a State capitalistic system, or a communistic system. I have no fear of that; but I want to point out that that is the real issue which underlies this measure, a measure typical of other measures here advocated.

Mr. FREAR. May I suggest this. I am particularly interested in one phase of the matter, and I want as much enlightenment as anybody to assist judgment, which I have not formed.

We are informed with considerable particularity that these various governments have such funds. We are told that in Germany, I think, the contributions are 50-50, and in England the contribution is one third from each party.

But these various governments, until the war, were getting along quite successfully with this as one of their aids. Of course, this is entirely different from the proposals there.

I am wondering if you could discuss that and give us a comparison of the way it would probably work here with the way it has worked abroad. That would be very helpful.

Mr. DENBY. In the first place, it is not quite correct to say that European countries got along with this particular system before the war. The fact is that the first system was adopted in England in 1911, and applied only to a small portion of industry, namely, the shipbuilding industry. There was no unemployment insurance system of any importance anywhere before the war.

The unemployment insurance system in Great Britain did not become universal until 1920. Unemployment insurance was adopted in Germany in 1926; and I may say that it failed completely. I want to explain that statement later.

In Great Britain unemployment insurance was inaugurated in 1920. Actuarially it succeeded for a few years, and then broke down completely. Now, what do I mean by saying it broke down completely? I do not mean that the system is not still going on. What I do mean is that it started out on the principle here advocated, a grant of relief,

as a matter of right, by an insurance contract to which a man had a claim. As soon as it met the obstacle which it was designed to cope with, it broke down completely and had to be converted to a system of granting relief as a matter of need, which is what you already have in this country.

Mr. FREAR. You say it succeeded actuarially a few years and then broke down. Did it break down because it was improperly estimated?

Mr. DENBY. Not only that, sir, but what I mean is this, that benefits were not given as a matter of insurance, they were not given as a matter of right to a person unemployed who should make claim for benefits. They were given, and had to be given, because the cost of doing it otherwise at that time was so great that it would have broken British industry. They were given as a matter of need; the means test had to be imposed, and it is still applicable. They were given only upon a showing that they required such relief. The same thing happened in Germany.

Mr. FREAR. We are giving it entirely on that basis without any well from which to draw?

Mr. DENBY. Yes, sir. But what is the well from which we are going to draw payments which are admittedly necessary?

Mr. FREAR. As I understand it, it is a fund that has been set apart for that purpose. I am not contesting one way or the other. I want to get light from you as to why they had to have a well over there and attempted to use it. I am glad that you have informed us that they have had it since the War.

Mr. DENBY. The Germans adopted the system in the face of the evidence of impending breakdown of the English system and they thought they had remedied the defects in the English system. The English Royal Commission had already made its early report which indicated the weaknesses of that system. But the German system also broke down as soon as it met serious unemployment. Contributions had to be increased to 6½ percent and benefits were reduced from 26 weeks to 36 days, after which time they were not given as a matter of right.

Now, what is the well from which must be drawn these payments? The well here contemplated is a well which will be fed by payments drawn from a pay-roll tax. It will be fed by drawing from persons who must pay whether they have profits from which to pay or not. In other words, it must come from an increase in the cost of goods or an absorption of that tax to the extent that it cannot be passed on, and a consequent reduction in production.

Mr. FREAR. Now, we are interested in what is the effect of drawing on that well that we propose. You were discussing, in addition to that, the effect of contribution by the individual.

Mr. DENBY. All right. I will anticipate something which I was going to say. I am opposed to the principle of unemployment insurance. I think it is fallacious in principle, and for this reason I am not offering—

Mr. FREAR (interposing). Any amendments?

Mr. DENBY. I am not offering any amendments; but I would like to say, if amendments are to be offered and if the committee does not agree with my statement, I would like to endorse most of the amendments, if not all of them, suggested by Mr. Gall last night. One of those was that this tax should not be imposed upon production but on

profits; therefore, if need be, an increased income tax. Second, that contributions should be made also by employees. That has a double purpose. The first purpose is an economic purpose and the second is, if you will, a moral purpose. The first purpose is that the employees should be made to bear a share of the load, which is largely for their benefit. It is also for the benefit of society. And Mr. Gall predicted that, if this committee were to amend the bill by requiring contributions from employees, the support that the bill now has from organized labor would fall away.

Second is the moral purpose. If we are going to embark on social legislation in this country—if the majority of the people want it, of course it will come—I would like to retain some vestige of individual responsibility and retain some vestige of the thought that the employee is not just being taken care of by somebody, but that he is contributing to that care. But I would like to point out also that a system of contribution from employees raises very serious administrative difficulties. It involves possibly resorting to a book system, such as they have in England, but which has been universally condemned in this country. The advocates of these measures are trying to get away from that. However, it involves a very difficult problem administratively in the way of raising these benefits, and I do not know that any really substantial proportion of the fund could be contributed from that source as a practical matter.

Furthermore, let me say this, that if we are going to follow the plan advocated in the States, and that is, to allow the employer who has regularized his operations, so that he does not have much unemployment, to reduce his payments into the fund, which is one of the cornerstones upon which some of the advocates rest their contentions, I want to point out that it is the employees in the irregular industries, whose employment is most irregular, who will have to contribute the major part of the fund. But the fund will be wholly inadequate if the others are to be let off.

There is a dilemma there. Either you are going to let them off or you are not going to let them off—I am addressing myself to the employee contributions. If you do let off the regular industries, you are going to try to impose the entire burden on the industries to the right of the chart, the very irregular ones, whose irregularity is something beyond their control. If you do not, you are going to have the regular industries bearing the entire load or most of the load: And it is a question whether labor, or organized labor—how far the individual workman, for that matter, in a regular occupation, is going to stand for contributions into a fund that he knows perfectly well will go for the benefit of someone else. That is strikingly illustrated in the British figures. We referred to that fact in this Pennsylvania report.

Mr. LEWIS. The committee will have the benefit of all that?

Mr. DENBY. I cannot lay my finger on it for the moment.

The facts show that in Great Britain a small proportion of the industries actually bore the burden, and that is one of the reasons why organized labor in Great Britain is now agitating as strongly as possible for the removal of the imposition of any burden on labor. They demand that it all be paid by the Government.

Mr. COCHRAN. I want to ask you a question right there about the English system. I discussed that system with English workers in

1929 and I remember distinctly one of them telling me, "I am not in line for these benefits because I make no contribution." In other words, the English worker can bring himself within the benefits of the law by contributing or stay without the benefits without contribution. Is that correct?

Mr. DENBY. He is then thrown on local relief and, of course, that applies also to the person who has not been employed for the requisite period prior to his unemployment. If he has not made a sufficient proportion of contributions he is not entitled to relief from this fund.

Mr. REED. Has it been true that, in France and in Great Britain and in Germany, as a result of the breakdown, much of the load has ultimately been borne by the Government?

Mr. DENBY. By the exchequer in England?

Mr. REED. By the exchequer in England?

Mr. DENBY. Yes. There is no question about that, that the bulk of relief is given through funds contributed by the Government in two forms: In the first instance, in the form of loans to the insurance fund, which have been a millstone around the neck of the treasury and are constantly increasing; and, second, in the form of local relief, which is a burden partly on the local governments and partly on the central government—exactly what we would have.

Mr. REED. Have you analyzed what England, France, and Germany, or any one of them, particularly England, has done, to show how rapidly the social legislation has added to the burden?

Mr. DENBY. I cannot answer that. It is a question that—

Mr. REED (interposing). I have a hazy notion that that part of the burden which is for social legislation has increased by leaps and bounds.

Mr. DENBY. There is no question that the expenditure by the Government on account of such legislation has increased by leaps and bounds, but I could not give you the exact figures.

Mr. REED. If you could give any figures it might be rather interesting to the committee.

Mr. DENBY. I would like to have an opportunity of looking that up and giving a brief statement including those figures.

I shall omit any reference to the legal argument, which has already been presented by Mr. Gall. I share his feeling that, in the first place, there is a serious question, a very serious question, whether the proposed measure is constitutional. I recognize that a person would have to be very confident if he were to attempt to predict the actions of the Supreme Court on such a measure, in view of recent decisions. I would like to point out, however, simply supplementing what Mr. Gall has said, that, in the first place, it is not an emergency measure and it would therefore not have the benefit of what may become a new trend of opinion as to emergency measures.

In the second place, this is not State legislation and therefore does not have the benefit of what now appears to be the majority view of the Court, of favoring all State legislation in social matters unless it appear clearly unconstitutional, but is, on the other hand, an action of Congress within the scope of delegated powers, which are of course limited. I won't enlarge on that but merely refer you to Mr. Gall's citation of cases.

Mr. REED. In submitting the figures that appear in the English budget as to the cost of social legislation, it might be well if you did

not include what might be termed simply educational. It might be well to eliminate that part which is for the support of the educational system, which, I believe, does come out of the general fund.

Mr. DENBY. I will be very glad to do that.

Now, if I may, I would like to just conclude by again calling the attention of the committee to the implications of this bill.

Mr. Gall stated here that this is one of the most important measures that has been before Congress in years. That is undoubtedly true. It does not appear so on the surface. In itself it looks innocent enough, compared to the N.R.A. and some of the more conspicuous measures.

The fact, is however, that this bill if passed will be the opening gun or the entering wedge for the Federal Government in compelling the States to enter the field of social legislation. It is the first load that will be imposed for that purpose, to be followed, with equal right, by any number of similar measures, which at some point, sooner or later, will bring about the inevitable abandonment of private capitalism. It will compel government, and probably the Federal Government, to finance all industries. The representatives of the "new deal" scoff at that view.

I would like to have you gentlemen go back to your constituents, however, and submit to them all the implications of this bill and ask them if they want it. Ask them if they want the Federal Government to revise our social system. Now, it may be that, as some of the exponents of the "new deal" think, the average man is not intelligent enough to think for himself and therefore should be thought for by the intelligent minority. That may be true, but the idea is not of American origin anyway.

Mr. LEWIS. As I understand it, one of the reasons for submitting this to the States is that our system of government is a dual system, so different from what they have abroad that necessarily it has to be done this way, as the Federal Government cannot go out and begin financing the proposition at this time. Would you advocate that, rather than have this commission to the States provided, there was an alternative to be submitted?

Mr. DENBY. No, sir.

This bill purports to be a revenue measure. I do not think anybody seriously contends that it is a revenue measure, though that contention will undoubtedly be made in the Supreme Court if it ever gets up. The fact is that everyone who has here testified regarded it as a compulsion on the States.

Mr. LEWIS. That the purpose is to force the States into action?

Mr. DENBY. To force the States into action; and I submit, sir, that that is not a Federal system. A Federal system is based upon the principle that the States shall be allowed to legislate upon matters of local concern, whatever they may be, and that the Federal Government should legislate upon the Federal matters; that is, those of national concern.

Mr. LEWIS. We did the same thing in the estate tax, which was passed in the form of a revenue measure.

Mr. DENBY. The same thing has been done in many cases. The Harrison Antinarcotic act was passed as a revenue measure. The oleomargarine tax was passed as a revenue measure. I submit that there was far more reason in the estate-tax law, which was definitely

a revenue measure, intended to produce revenue, than in this case, the primary purpose of which is to compel the States to act, in effect, within a prescribed range.

Mr. LEWIS. I had occasion some time ago to examine that line of decisions and I reached this conclusion. Take the antinarcotic act. In form it is a revenue measure. As a practical fact, if the words narcotic, opium, cocaine were stricken out and the words whisky and other alcoholic beverages put in, you would have a Volstead Act, without any amendment to the Constitution. There was also the case of the 10 percent tax on State bank-note circulation. That in form was a revenue tax. The conclusion I reached was this, that wherever it happened that the opinion of society was practically unanimous upon the desirability of the objective of the act the courts had found them constitutional. Wherever there was a grave division of public opinion as to the desirability of the objective of the act, we have had perhaps a divided court. The court was acting on sociological lines rather than on legalistic lines.

Mr. DENBY. I agree with that entirely, sir. There can be no question about that. And that is why in constitutional questions it is so difficult to predict what the action of the courts will be, which is simply another way of saying it is so difficult to know what the Constitution means, because no one will know until the Supreme Court has decided a specific case; and no one will know how long the law as thus interpreted will last.

Now, in concluding, if the bill is to be reported, which I hope it will not, I earnestly endorse the amendments suggested by Mr. Gall and I will not therefore elaborate on them. I have said that I am opposed to the principle underlying the measure, therefore I do not believe that amendments will very much improve it.

The principle is wrong because it is economically unsound. The principle is economically unsound because the attempt to distribute benefits as a matter of right, wherever it has been tried, has proved impossible as an economic and financial matter. Everywhere the countries have had to resort to giving benefits as a matter of need; and a system which began as an unemployment-insurance system became merely the vehicle for distributing relief. Now, it may be that the vehicle was a good one, that the mechanics were good. It may be that we should study the British system from that point of view; and that it may prove desirable to prepare for setting up against the next emergency a system for the distribution of benefits. But I submit that the correct approach to the problem is to treat unemployment of a serious character as an emergency and to deal with it as it arises, and to pay the benefits from Federal funds when local funds have been exhausted; and that those funds should be provided from Federal borrowing at that time, if need be.

I submit that it is fallacious to attempt to build up a reserve which, if this bill goes through, and the States adopt such a law, will be the most gigantic reserve ever accumulated for such a purpose, and that it will be difficult to liquidate when the time comes. I submit that the correct approach is to reduce the Federal debt as rapidly as possible from the proceeds of taxes which will be levied upon profits, in order that when the emergency arises the Federal Government will be in a position to use its borrowing power, which it has been demonstrated is the only borrowing power available, increasing public debt, and in that way to finance such relief as is needed.

Mr. LEWIS. The gentleman does not appreciate that the principal opposition that we have had to raising taxes as he suggests, and to paying the debt, as we did for a while, came from the gentleman's own State.

Mr. DENBY. I am fully aware of that and I am fully aware also of this, that there will be a tremendous objection to increasing the taxes in order to pay off the Federal debts when the time comes to do that. But that is no reason why we should either adopt an unsound measure or why we should decline to take the only course which would properly deal with the problems involved.

Mr. LEWIS (interposing). I was suggesting that as a reason, that we have learned since that time.

(Thereupon, at 12:40 p.m., a recess was had until 2 p.m.)

AFTER RECESS

Mr. LEWIS. The committee will resume its session.

Mr. A. K. Barta, of Washington, representing the American Transit Association. **Mr. Barta,** will you give your name and your relation to the association?

STATEMENT OF A. K. BARTA, WASHINGTON, D.C., ON BEHALF OF THE AMERICAN TRANSIT ASSOCIATION

Mr. BARTA. Mr. Chairman and gentlemen of the committee, my name is A. K. Barta, and I am an assistant to the general counsel of the American Transit Association. Our Washington office is located in the Tower Building.

Mr. LEWIS. What is the American Transit Association?

Mr. BARTA. I will get to that in just a moment, Mr. Chairman. I will make a short statement that will clearly and concisely state what the association is and the situation we are facing under this bill.

The American Transit Association is a voluntary organization with general headquarters at 292 Madison Avenue, New York City. Its member companies operate the major part of all electric-railway mileage (street, suburban, and interurban) within the United States, Canada, Mexico, and the island possessions of the United States. Included in the membership of this association are bus-company subsidiaries and affiliates of electric lines, as well as a number of bus operations conducted primarily within cities and towns and metropolitan areas.

Within the membership of the association are many electric-railway companies which are subject to the jurisdiction of the Interstate Commerce Commission under the Interstate Commerce Act and the Emergency Railroad Transportation Act of 1933. The remaining companies are subject to the jurisdiction of State regulatory bodies or conditions imposed by municipal franchises.

As this bill (H.R. 7659) is written, its provisions would apply only to the street-railway companies and bus lines operating what is essentially city or suburban passenger transportation service within the cities and towns and metropolitan areas of this country.

Now, it seems to me quite unthinkable that anyone would oppose or debate the justness of proposals designed to protect and promote the welfare of a great mass of our citizens. Certainly there has been throughout all history much social injustice in regard to these matters

which modern thinking is striving to find means of correcting. With such purposes I am in hearty accord, and it is my earnest hope that the committee will find ways and means by which the purposes may be accomplished without working greater hardships than the proposals are designed to relieve.

But, as an industry, we are confronted with economic facts and not theories. We cannot wave aside conditions that must be self-evident to most observers. We are unable to translate actual unfavorable economic results from the present operation of transit facilities into favorable figures which would show that the proposed 5 percent excise tax might be applied to the transit industry without causing more distress than it would cure.

It is with extreme reluctance, therefore, that we are compelled to submit facts and figures to you which no doubt will intensify your problem and retard its satisfactory solution insofar as this industry is concerned.

The transit industry, as I have defined and described it, represents a capital investment of more than 4 billions of dollars, an investment which, by the way, has paid but little return to its owners over a period of a good many years.

Illustrative of this fact may be cited a statement of the Federal Electric Railways Commission in 1920, which made a thorough investigation of the entire electric-railway industry under the direction of Federal authority and which in its conclusions reported:

Lack of confidence in electric-railway investment exists today—that is, in 1920—to a degree which has caused a partial paralysis, in working havoc with the finances of the companies and is depriving the public of the service to an alarming extent.

I mention this in passing merely to indicate that the present depression from which the country is beginning to recover is not the cause of the plight of the transit industry. Its serious economic situation extends back to the widespread use of privately owned automobiles, or to about the years 1912 to 1915. From those years down to the present day the transit industry has been in an acute condition of economic distress.

About 350 corporations, partnerships, or individuals furnishing passenger transportation service as members of the transit industry probably transport more than 90 percent of all passengers carried and derive in the aggregate more than 90 percent of all revenues therefrom. In addition, there are hundreds of small companies operating from 1 to 2 to 3 busses in all parts of the country, coming and going in such large numbers every month that it is impossible to obtain an accurate record of their operations.

The transit industry employs approximately 190,000 workers, and these workers earn, on an average, a higher annual income, comparatively, than most employees of other industries. There is a minimum of seasonal fluctuation in employment in the transit industry. The principle of seniority is nationally established and consequently permanence, security, and stability of employment are characteristics of labor conditions in the industry. Labor turnover is remarkably low as a result thereof.

It should also be pointed out that wage rates of labor in the transit industry have been reduced less than in most other industries, having decreased an average of less than 10 percent from the peak levels of 1929 and 1930.

During 1933 there were approximately 190,000 employees in the transit industry receiving an annual compensation of about \$278,000,000. But approximately 28,000 employees whose annual compensation aggregates about \$38,000,000 are employed by carriers exempt from the provisions of this bill as now written.

Thus, for the purposes of computing the excise tax of 5 percent contemplated by this measure, it would amount to 5 percent of \$240,000,000 or an additional \$12,000,000 increase in taxes imposed upon the transit industry.

The gross operating revenues of the transit industry are estimated for the year 1933 at \$666,000,000. Operating expenses, taxes, and deductions from income amount in the year 1933 to an estimated \$6,750,000 more than the revenues.

Mr. LEWIS. It is not clear as to what is embraced in your transit system? It is composed of street-car systems?

Mr. BARTA. Street-car systems in the various cities, suburban and interurban lines, and affiliated bus lines.

In other words, the industry as a whole in 1933 failed to earn operating expenses, taxes, interest, and so forth, by more than 6 millions of dollars. If the tax burden of the industry is increased by an additional \$12,000,000 as contemplated by this bill, the industry will operate at a deficit of approximately \$18,000,000 a year.

Now, there are some natural fundamental differences between the transit industry and the production and distribution industries, namely, the transit industry generally is unable to pass on to the consumer increased costs resulting from its efforts to comply with the National Industrial Recovery Act, shorter hours of work per week, or increased taxation burdens, because, first, its rates are controlled by State regulatory authority or municipal franchise; and, second, even if increased fares were permitted, they are now, with few exceptions, at the upper economic limit and further increases would not produce increased revenue. The industry is further harassed by keen competition from unregulated transportation agencies such as taxicabs, service cars, and share-expense-basis operations. Very few of these agencies will be subject to the tax here proposed, and to assess the same on the transit industry will well-nigh sound the death-knell of organized mass transportation companies.

I should like to refer a little more fully to the competition with which the transit industry is confronted, namely, the matter of taxicab competition. Here in the Capital City itself is one of the best examples of fleets of low-rate taxicabs operating without regulation and requiring long hours of service from drivers whose earnings per week are below even a subsistence level. The safety of operation is disregarded in that there is no requirement of insurance for the safety of passengers or the public. Obviously, in its relation to the transit industry these low-rate taxicabs have had a serious effect upon and continue to be a menace to the existence of street railways and bus lines upon whom falls the burden of mass transportation in the large cities. Yet under the terms of this bill not one of these taxicab transportation agencies would be subject to the excise tax.

The condition of the industry is such that during the preparation of our code of fair competition it was recognized that many properties could not continue in business under the hours of service and wage provisions of the code, and accordingly it was provided that such

companies might obtain a stay of the code provisions, and to this date a number of companies have been so exempted. Thus with many companies unable to comply with the transit code, eking out an existence under the direction of a receiver in most instances, the imposition of the excise tax here proposed would result in either a substantial curtailment of service or a complete abandonment.

And, speaking of taxes, the unsound tax and special assessment burden that exists in most large cities constitutes another element in the present economic condition of the transit industry. In the old days when horses pulled street cars along the city streets it became customary to assess a charge against the street-car company on account of the paving that was worn out by the horses.

When the horse-drawn street railway cars were transformed into cars propelled by electric power the old plan of assessing paving charges against the street-railway company was continued despite the fact that the street cars ran on their own rails and did not wear out the pavement.

In the flush days of mass transportation, before the advent of the private automobile, street-railway companies were able to absorb this cost out of earnings, although it never was a fair charge to pass along to the riders of electrically propelled street cars. In the past few years some effort has been made to readjust matters of this kind but in a few cities only are the authorities willing to give up the revenues accruing from such charges against street-railway companies, and therefore the progress of relief from paving assessments and other similar special taxes has been very slow.

In this same category are charges for various other kinds of public improvements, such as special public park taxes, charges for traffic policemen, and so forth, none of which fairly are a proper charge against the street-car riders.

Furthermore, in many cities a high percentage of gross earnings are taken as a franchise tax, on the theory that the right to use the city streets by a street-railway company is an asset. It was such an asset at one time, but in the light of modern conditions in almost all of the cities of the country it has become a liability, and these unequal, unfair taxes and charges militate against a financially healthy transit industry. And the proposed 5-percent excise tax on the pay rolls of the transit industry will become the straw which breaks the camel's back.

Another factor that enters into the economic condition of the transit industry as a whole is the power and authority over rates and service that is almost universally exercised by governmental authority in the cities and States of this country. You are all familiar with public-utility regulatory bodies over transportation agencies. Street-railway companies and bus lines are almost entirely controlled, insofar as rates of fare and service are concerned, by either municipal franchise or State public-utility commissions. In addition to this, in many places hours of service are regulated.

So we have as to this industry a governmental agency fixing fares and prescribing or regulating the character of service. There is no freedom of action so far as the selling price of our service is concerned, such as there is generally in the production and distribution of commodities. We cannot look over a cost statement at night and, finding it getting out of hand, come down in the morning and raise our price

to meet the additional costs. We have no means of passing on to the consumer any portion of increased costs without a long-drawn-out process of negotiation with city authorities, hearings before public utility commissions, or litigation in the courts.

Furthermore, almost universally the rates of fare charged by members of the transit industry are now and have been for several years at their upper economic level. In other words, there are more street-railway fares now at a base of 10 cents cash, with some reduction for tokens or tickets, than at any other rate, and it is commonly agreed among members of the transit industry that a 10-cent fare is at the upper economic level—that any rate of fare of more than 10 cents meets the old law of diminishing returns. Thus we are in a strait-jacket so far as revenues are concerned, with no freedom of action and, even though we had freedom of action, we would still be within the limitations of economic possibility.

Taken all in all, this is not an especially pleasant picture to view. Here we have an industry undoubtedly necessary and essential for the welfare of millions of our citizens, and which cannot be superseded by any form of transportation agency that is now known or in contemplation. I say this because it would be utterly impossible for the streets of any fairly large city to provide space enough for the movement of automobiles or taxicabs or busses to transport the people to and from their work. A street car on fixed rails, occupying from 8 to 9 feet in width of street space, will carry as many people as 15 to 20 taxicabs. Therefore it is commonly acknowledged that in good-sized cities, service rendered by street railway and rapid transit companies cannot be successfully performed by any other form of transportation agency. And, you must remember also that the street car is the poor man's limousine.

So, as I say, here is a necessary and essential industry, harassed by cutthroat cab competition, hampered by unreasonable taxation, very completely regulated as to rates of fare and character of service by public authority, and under present conditions unable to earn enough to meet its obligations.

How, then, may this industry survive under the imposition of an additional tax of 5 percent on its pay rolls? Ability to pay may be conditioned solely upon income, and, if you haven't the funds, you simply cannot pay—that's all.

So then the answer is obvious. The industry cannot assume this additional tax burden. And, if it is imposed, the net result of such a program would mean a severe curtailment of service with consequent rapid increase in unemployment among the present 190,000 employees that are in the service; or the choice between complete abandonment or public ownership with the taxpayers saddled with the payment of operating costs.

As I first stated, I am in complete accord with the underlying principles of the proposed bill, but its financial support must be obtained from those industries able to pay and able to pass on to the consumer the increased cost thereof.

If the transit industry is to survive, it will be necessary to amend the bill, and I suggest for your consideration the following proposed amendment:

On page 3, in line 19, after the word "carrier" insert a period, and strike out the remainder of line 19 and all of line 20.

Mr. LEWIS. So it would read how?

Mr. BARTA. So it would read:

Employment in the service of a common carrier.

That is subparagraph (7) of section 1, on page 3. As it now reads, it is:

(7) Employment in the service of a common carrier subject to the provisions of the Emergency Railroad Transportation Act of 1933 (48 Stat. 211).

I will comment on that a little more fully right here.

The language of the bill as now written excludes all common carriers subject to the Emergency Railroad Transportation Act of 1933, undoubtedly on the theory of their very complete regulation as to service, hours of labor, rates charged and wages paid, financial responsibility, and so forth. Among these excluded carriers are some 150 electric railways, and it is not readily perceived why a portion of the transportation industry is singled out for the imposition of the 5 per cent excise tax and the balance left tax free. And remember also, that municipally owned street railways will not be subject to this tax, though the character of service performed is identical with that of all other street railways.

Mr. LEWIS. They are negligible in number?

Mr. BARTA. Well, the San Francisco and Detroit municipal systems have quite a number of employees, and there are perhaps half a dozen municipally owned systems. Inasmuch as all common carriers are subject to strict regulation, all should be exempted from the tax here proposed.

As heretofore stated, for all common carriers affected by the bill as now written, the additional annual cost will amount to approximately \$12,000,000, a sum impossible of payment by the mass transportation agencies whose present existence is exceedingly precarious. On a by affirmative exclusion from the provisions of the bill may most of these companies hope to continue in business. Failure to exclude them will mean that millions of street-car passengers will be discommoded, thousands of employees will be dismissed, service will be discontinued in many instances, and where service continues it will be at increased cost to either the passengers or taxpayers, or both.

That, gentlemen, is the situation that is facing our industry. We will just have to have some sort of relief if this bill is reported. We cannot bear any additional tax burden.

Mr. LEWIS. It is a very impressive statement. However, let me ask you this question: Have you any way by which you can ascertain the amount of the decline in business during the last 4 years which might be attributed to the general decline in business rather than to the special factors which have been changing the transportation situation?

Mr. BARTA. Well, that would be pretty difficult for us to obtain, Mr. Lewis. We are in a bad way at any time. When conditions become good and the factories start to going full blast, why, the people will buy a second-hand Chevrolet; they won't ride with us. And when they do not have a job to ride to, they do not ride with us either. We catch them in a twilight zone. But in our big cities,

naturally, the street cars or some other similar vehicle will be used for mass transportation. The streets will not otherwise carry the traffic. We are attempting to attract some of this patronage back again by the development of high-speed transportation on interurban lines and new types of cars.

Mr. LEWIS. You would not be able, then, to say with any degree of confidence that if the one third of the normal business of the country now absent would return your receipts would go up 10 or 15 percent?

Mr. BARTA. I do not think there is any method by which we can measure how our receipts would increase by the return of people to employment, because the minute they can afford it they want an automobile, and they use the street-car lines on rainy or stormy days or when they are nearly broke; but, as soon as they reach that degree of affluence and can afford it, they are out for an automobile again.

Mr. LEWIS. It is the automobile, then, and not the depression that is responsible for your plight?

Mr. BARTA. Largely so, as far as we are concerned.

Mr. FREAR. How much have the receipts of the transit companies declined?

Mr. BARTA. During 1933 the figures that we have been able to gather show that the gross operating revenues of the transit industry were \$666,000,000 and that the operating expenses were \$6,750,000 in excess of that.

Mr. FREAR. What were they the last year when there was a normal condition?

Mr. BARTA. Well, that was for 1933. I did not get them for any other year, because our industry has just been dwindling down constantly.

Mr. FREAR. Those are the revenues of street-railway transportation?

Mr. BARTA. Street railway, suburban, and interurban lines and their bus operations.

Mr. FREAR. Will their business come back; and, if so, what will be necessary to bring it back?

Mr. BARTA. Why, Mr. Frear, I think that in the big cities it will gradually become stabilized; and in the small communities I think the street car will give way to the bus operations.

Mr. FREAR. In discussing the problem with some railroad people who seem to have a general understanding, they said about 50 percent of the legitimate passenger transportation of the railroad business had gone to private automobiles and about 25 percent to busses. That left about one quarter. I do not know whether they know any more about it than you or I. As I say, if that be true, where are you going to recuperate? Where can you go to get that business?

Mr. BARTA. I do not know, Mr. Frear. I wish I could answer that question for you. With the improved highways all over the country and the ability of the individual to get into his automobile and depart when he wishes and go by whatever route he chooses, it is a problem.

And, for a run of not over 200 or 250 miles, he can make it as fast as a steam railroad. I do not think you can ever attract that person back to the steam railroad lines; and our interurban lines are in worse

shape than the steam railroads. Most of them are not over 40 or 50 miles in length. Many of them have been abandoned and others that are existing have gone into the transportation of freight to recoup their revenue.

Mr. LEWIS. This further question: I think you said that a majority of the operating companies were now employing a 10-cent fare. Can you amplify the detail of that statement a bit?

Mr. BARTA. Yes. I think the average, taking into consideration the cash fares, tokens, and everything else, is about 8½ cents, where the base fare is 10 cents.

Mr. LEWIS. That is the average fare paid?

Mr. BARTA. Yes; for example, here in Washington, the base fare is 10 cents. That is the cash fare. Then you get tokens for 30 cents, which brings it down to approximately 7 cents.

Mr. FREAR. It is 4 tokens.

Mr. BARTA. Whatever it is.

Mr. LEWIS. Four for 30 cents.

Mr. BARTA. And then they sell a weekly pass. You cannot tell just what it is, but practically all over the country there is some reduction from the base fare.

Mr. LEWIS. Can you estimate the percentage of cash fares that fall under that 10 cents?

Mr. BARTA. I do not know of any place that adheres strictly to a 10 cent cash fare. They start with a 10-cent base and then sell tokens at a slight reduction.

Mr. LEWIS. Any other questions? I thank you.

Mr. BARTA. Thank you.

Mr. LEWIS. Now, we will hear from Mr. Boyd, if he is present. Mr. Boyd does not appear to be here.

Mr. George C. Lucas, of New York, representing the National Publishers Association, if he is present.

STATEMENT OF GEORGE C. LUCAS, EXECUTIVE SECRETARY, NATIONAL PUBLISHERS ASSOCIATION, NEW YORK CITY

Mr. LUCAS. I am George C. Lucas, executive secretary of the National Publishers Association, 232 Madison Avenue, New York City.

Mr. LEWIS. What does the organization National Publishers Association include?

Mr. LUCAS. The National Publishers Association comprises in its membership approximately 200 of the leading periodicals of the United States, the total combined circulation of which is approximately 50 million copies per issue. It is a voluntary organization of these periodicals, which has been in existence for nearly 20 years, in connection with handling problems to that particular line of industry.

It is not our intent to discuss in detail the merits or demerits of unemployment insurance, nor to go fully into the subject of Federal legislation intended to force State action toward that end.

If this bill becomes law in its present form and accomplishes the stated purposes of its authors, it means that State legislation on a highly controversial subject must be enacted in the comparatively short time of 1 year. The State Legislatures of Massachusetts, Minnesota, Wisconsin, Ohio, Connecticut, Pennsylvania, and New York have all been confronted with this problem in the years since

1916. Only in the case of Wisconsin has any legislation been passed and in this case it does not meet the requirements set up in this bill. In the other States either such wide differences of opinion existed that equitable legislation was impossible, or times were so bad that further burdens on industry were deemed inadvisable.

That possibly may be modified a little bit by the evidence submitted last night in connection with the proposed legislation in Massachusetts. That legislation seems to be getting a little nearer to the point of enactment, but still we are without any actual experience here as a guide to what might ensue as a result of such legislation.

It is our opinion that, in view of this legislative history, only hurriedly enacted laws would ensue, resulting in inequities between members of an industry located in the same State and in various States and between competing industries. Our suggestion is that, if Federal legislation of the character of this bill is enacted, its effective date be postponed until such a time as, in the first place, will allow actual experience as a basis for sound judgement and, in the second place, will allow all industries an opportunity to reach such economic status as will permit the added burden inherent in this kind of legislation.

The periodical publishing industry is one where the added burden of 5 percent of pay rolls plus the assumption of this added cost on the materials we buy, such as paper and ink, would be disastrous at this time to many of our members. In 1932, 75 percent of this industry operated at a loss. In 1933, 90 percent was in the red. Although the first 6 months of 1934 show an increase in revenue over 1933 that increase is not sufficient to cover the increases in labor costs and paper costs occasioned by the National Recovery Act. We can anticipate ahead that much because we know our advertising revenue for the next few months.

We have lost advertising revenue to the radio, whose costs are not greatly influenced by the National Recovery Act, nor would their costs be greatly affected by unemployment-insurance legislation. Nor can we pass on to our customers, our advertisers, and our readers, these many increases in cost without losing volume of business, which is not only necessary to our remaining in business, but is also the measure of our employment.

If Federal legislation of this character is enacted, the rate of tax should not exceed 2 percent, which we believe is the highest rate that has been proposed in any of the State laws, so that those industries which will have to meet this levy out of capital and which cannot pass the added cost on in the form of increased selling prices, will have a better chance to survive.

Finally, in regard to the ultimate consequences of this legislation, that is leaving aside the effect that might be produced this year or next year, on pay rolls, we wish to point out the added incentive it creates for the more rapid introduction of labor-saving machinery for the definite purpose of reducing the total taxable pay roll and thus add to the unemployment.

Further, there is always a maximum labor cost that any industry can meet and there will be a definite increased tendency for employers to consider this tax as a part of the wages of their employees and keep the direct wage paid as low as possible and if possible to reduce such wage by the size of the tax itself; I am indicating that only as a natural business tendency. That covers the general views of our association on this subject, Mr. Chairman.

Mr. FREAR. That would be as a method of compelling contributions from the employees by deducting it from the wage?

Mr. LUCAS. I say it would tend that way, Mr. Frear. That is not a statement of what we would do, but it is only natural that the employer would have a tendency to say:

Our wage costs will be so much plus this 5 percent and we have got to find some way to meet that 5-percent tax and, therefore, we will make our direct wage that much less.

Mr. LEWIS. There would be a tendency in many cases to regard the tax as a part of the wage fund?

Mr. LUCAS. That would be the tendency in many cases. The business men would naturally look for some way to meet this added burden. In our own particular case, we have not been able to pass on the N.R.A. costs. Our subscription prices for magazines are fixed at certain rates, so that we cannot add on 5 or 10 percent. Our advertising contracts are made generally for a year in advance. There is no way of modifying them and they must be modified in the light of other conditions. And then there is the volume of our business which must be considered. If we have a publication which ordinarily has 75 pages, in ordinary times, based on advertising, and if, through the lack of advertising, we have to reduce that publication in size, so that it is only half as large, we can use only half the amount of labor and half the amount of paper in printing that lessened number of pages. It will operate to reduce employment.

Mr. LEWIS. Have you any information as to the amount of labor and the unemployment in the publishing industry?

Mr. LUCAS. The records of unemployment in the publishing industry are showing very definitely that the amount of unemployment, and I am not speaking of the printing industry but only of the publishing industry, is nearly up to the level of 1926 as far as labor is concerned; and, in relation to other industries, to commercial printing, it is not as far off as those are in the relationship to either 1926 or 1929.

Mr. LEWIS. Have you gentlemen any questions?

Mr. FREAR. In reference to these various States that have introduced laws along these lines, could you develop that, or are you familiar with that?

Mr. LUCAS. Mr. Frear, I did not understand that any of these States have introduced laws. They have been considering this problem in the legislative committees. Before the Legislature of State of Massachusetts there is a well-formulated law, as well as I can learn. That was discussed last night rather thoroughly, but I am not familiar with the details of that.

Mr. FREAR. Can you discuss the bills that have been presented in these States?

Mr. LUCAS. They have not been presenting any bills, they have merely been under discussion.

Mr. FREAR. The State of Wisconsin, I understand, has a law.

Mr. LUCAS. The Wisconsin law was fully discussed last night.

Mr. FREAR. Unfortunately, I was not able to be here last night.

Mr. LUCAS. I made the statement here a moment ago that the Wisconsin legislation does not meet the requirements set out in this bill.

Mr. FREAR. I want to know in what respect it does not?

Mr. LUCAS. First, it does not cover a 5-percent contribution by the employer.

Mr. FREAR. It is 2 percent, is it not?

Mr. LUCAS. That is 2 percent, in the first place. And it does provide for an employer to insure his liability, whereas that is forbidden under this proposed bill.

Mr. FREAR. That is confined, as I understand, to a particular industry. Is it confined to the particular business there, the employment? It is not like this, intended to have a scope covering all employers.

Mr. LUCAS. I am not sure that it covers the same scope as the employment defined in this bill. It may be restricted to particular industries. Of course that was an important point that was discussed last night.

Mr. FREAR. I believe that was not discussed as to this law. I was not here.

Mr. LUCAS. I cannot enlighten you as to that, since I did not go into it fully.

Mr. LEWIS. How many people have you in your business?

Mr. LUCAS. In our particular association we have between 150 and 200 periodicals. In the periodical publishing business I happen to know, because I work under the code authority, that there are in the United States about 5,800 periodicals.

Mr. FREAR. How many employees have you in your particular concerns?

Mr. LUCAS. I have not the figures on that. They vary in size between the publications. Many publications do not do any printing. Their employees are merely their office forces and accounting forces.

Mr. FREAR. In some cases they would not be included?

Mr. LUCAS. No; because their printing is done by a commercial printing plant. In other cases they do their own printing. In other cases they do not have as many as 10 employees.

Mr. FREAR. The suggestion was made that they would get improved machinery in order to cut down on pay rolls.

Mr. LUCAS. I do not mean that to apply merely to our particular industry. That is a tendency of all industries, to replace employees with improved machinery as the inducements to do so are increased.

I might add that in our particular industry, as far as the introduction of labor-saving devices is concerned, I think we have only scratched the surface; and, as was brought out last night, many an industry may have such a close relationship to its employees that they have no desire to reduce their employees. But in many industries the question is how they can reduce wage expense, due to the severity of competition and the use of labor-saving machinery by others.

I thank you.

Mr. LEWIS. Mr. Allen, of Massachusetts.

Will you give your full name?

STATEMENT OF WALTER D. ALLEN, BROOKLINE, MASS., PRESIDENT OF THE NATIONAL EDITORIAL ASSOCIATION

Mr. ALLEN. Mr. Chairman and gentlemen of the committee, my name is Walter D. Allen, Brookline, Mass.; and I appear here as president of the National Editorial Association.

The National Editorial Association is a trade organization representing thousands of daily and weekly newspapers located mainly in the smaller cities and towns. The association is opposed to the enactment of H.R. 7659 and its companion bill (S. 2616) providing for a Federal excise tax of 5 percent on the pay rolls of newspaper publishing establishments. The newspapers which we represent cannot absorb this new tax.

This proposed tax would undoubtedly increase unemployment in our particular field. The immediate effect would be to inspire plant economies in an effort to build up the reserves in order to meet this tax. An overwhelming number of our establishments engaged in publishing newspapers have borrowed heavily during the last 2 or 3 years in order to keep in business. Our expenses were increased last August from 10 percent upward in order to meet the terms of the President's Reemployment Agreement, and, as a result of signing the Code of Fair Competition under the N.R.A., the expenses of all publishing houses have again been increased, with no additional income from advertising or subscriptions in sight.

Official statistics issued by the Department of Labor show that the publishing industry has been the one outstanding group to maintain high percentages of employment at times when other classes were largely unemployed. These official figures will show that the publishers have kept employees on the pay rolls when the establishments could have been operated with substantial savings by letting out their workers.

This proposed bill is obviously not a temporary relief measure. Is it small wonder that the newspaper publishers are alarmed as they realize the significance of a permanent tax levy of this character? It is a burden that is being imposed on employers at a time when they are hopeful of recuperating from the industrial depression. The history of panics and depressions in this country reveals quite clearly that considerable time is required to refit and adjust our business to new conditions.

The social-legislation workers, whose views are represented in this bill, are more accustomed to dealing with theories than facts. On paper, a 5-percent tax on pay rolls may be ideal, but in practice it would result in the definite retarding of business recovery. Publishers of small-town newspapers have difficulty in providing cash necessary to meet weekly pay rolls without being obliged to put aside another 5 percent in order to pay this excise tax.

We have not the slightest doubt as to some of the direct effects of this bill on the labor supply in newspaper offices. In our opinion it will hasten mechanization of all processes and thus permanently reduce employment. It will force employers to keep wage rates at the lowest possible minima and thus reduce the amount of the tax. The newspaper with 10 men or less will find that its employees will prefer to work in larger shops in order to be entitled to unemployment benefits, thus creating a distinct competitive disadvantage as between larger and smaller shops.

This bill will cause further migration from the farm areas to the industrial areas and will invite the transfer of workers from the class of those not gainfully employed, in order to share in the unemployment benefits. It is generally known that the Roosevelt administration has a plan under consideration, which contemplates shifting certain classes of workers from the more densely populated areas to the smaller communities. Unemployment insurance, which in many instances places a premium on indolence, would unquestionably defeat this proposed plan of the administration to place workers in the areas of lower living costs and keep them gainfully employed. Farmers and rural population will pay a good part of the cost of this legislation in the price of the goods they buy, and they will receive no benefits.

First, geographically. Some States will pay more than others.

Second, industrially. As an example, the building industry versus the newspaper industry. The former is a seasonal industry and the latter not.

Third, as to individual establishments. On firms employing less than 10 men there is no tax; on firms employing 10 men or more there is 5 percent tax added to their wage costs.

Mr. LEWIS. Are you through with your general statement?

Mr. ALLEN. Yes. Thank you.

Mr. LEWIS. Mr. Cochran?

Mr. COCHRAN. No questions.

Mr. LEWIS. Mr. Reed?

Mr. REED. What is that method of distribution, that you speak about, of labor? You say that the President has in view a certain method of distribution; and I ask that for information purely, because I do not know.

Mr. ALLEN. Within the past 6 weeks Professor Tugwell and the President have conferred, according to the press reports, on this proposed idea of migrating the unemployed into territories where they may become gainfully employed.

Mr. REED. Where would that be?

Mr. ALLEN. In some instances, I think, as nearly as I can gather from the reports that I have seen on the matter, the idea was that there might be those in the industrial centers who might be, preferably, transferred to the farming communities, or vice versa. The principal object of that proposal, as was reported by Professor Tugwell, was the contemplation of taking the workers out of the densely populated areas and getting them back into the less densely populated parts of the country.

Mr. REED. To become producers on the farms?

Mr. ALLEN. To become producers on the farms and take up gainful employment in the country.

Mr. REED. The farms are having trouble today to get rid of their surplus crops. I have just left my table, where there are any number of letters to that effect, and I am wondering what is the method of effecting their relief. I would like to know.

Mr. ALLEN. Those are just newspaper reports we have received, of those conferences.

Mr. LEWIS. Mr. Allen, I presume you have no statistics showing the falling off of the gross receipts of the newspapers.

Mr. ALLEN. The gross receipts of the newspapers on advertising, as reported last month, averaged 43 percent of what they were prior to the depression.

Mr. LEWIS. How about the fall of circulation?

Mr. ALLEN. The falling off of circulation has not been as great. In my opinion, that is rather a good commentary, that the people, the same as you in your home town, do like to know what is going on in their own communities, and they still continue to read their local newspapers.

Mr. COOPER. I did not quite get from the statement you have just made, Mr. Allen, just whom you are speaking for.

Mr. ALLEN. I am speaking for the National Editorial Association, which is a trade organization that is now in its forty-ninth year, representing over 12,000 small weekly newspapers.

Mr. COOPER. Your association represents the smaller newspapers, both weekly and daily, throughout the country?

Mr. ALLEN. Yes, sir.

Mr. COOPER. And I understand that it is your opinion, as expressed here, that this type of legislation would not be in the interest of the newspaper industry that you represent?

Mr. ALLEN. That is true, sir.

Mr. COOPER. Are you prepared to give us any statement as to the views of the larger newspapers of the country, or how they might feel about it?

Mr. ALLEN. No; I cannot, sir.

Mr. COOPER. I thank you.

Mr. LEWIS. Of course your presentation is predicated on actual present conditions. If normalcy were restored, your view would be different, would it, Mr. Allen?

Mr. ALLEN. I think that if the newspaper advertising came back to the peak of 1928 and 1929, the publishers might find a way to absorb this additional wage rate, which is as I view this tax; it is increasing wage rates. We increased wage rates when we lowered the hours under the P.R.A.; we are now increasing them under our code, which was signed in February, and in a few days it will become effective.

Mr. FREAR. Do you speak for the local press generally?

Mr. ALLEN. Yes, sir.

Mr. FREAR. I wonder if they have taken any official action on this matter.

Mr. ALLEN. I think that some of the State associations during the past 3 or 4 months have considered this matter and are taking it up in fear.

Mr. FREAR. The reason I asked that is that the State of Wisconsin has made some attempt along this line and I am asking whether you have received any word from the State.

Mr. ALLEN. Personally, I have not received any word from them.

Mr. FREAR. Wisconsin has a fine editorial association.

Mr. ALLEN. You have a fine association; and Mr. Conrad, the former president is one of our national directors.

Mr. FREAR. Has the Massachusetts State Legislature done anything about it?

Mr. ALLEN. I know very little about it except there was something in the Boston newspapers to the effect that hearings were going on.

Mr. LEWIS. Thank you very much.

Mr. Donnelly, of Chicago, representing the Illinois Manufacturers' Association. Mr. Donnelly, will you give your name and your relation to the association?

STATEMENT OF JAMES L. DONNELLY, CHICAGO, ILL., ON BEHALF OF THE ILLINOIS MANUFACTURERS ASSOCIATION

Mr. DONNELLY. Mr. Chairman and gentlemen of the committee, my name is James L. Donnelly. I am the executive vice president of the Illinois Manufacturers Association, with headquarters at Chicago.

I might say, Mr. Chairman and gentlemen, that I was not notified until yesterday by the committee that I would have an opportunity to present a statement. Necessarily my statement has been somewhat hastily prepared and I hope I may have the indulgence of the committee if it is not as comprehensive and as clearly expressed as otherwise might be possible.

On behalf of the Illinois Manufacturers Association, comprising approximately 2,500 representative industries in Illinois, I wish to submit a vigorous protest against the enactment of the bill (H.R. 7659), providing for a pay-roll tax for so-called "unemployment insurance."

The imposition on industry at this time of the tax burden contemplated by this measure would render business recovery absolutely hopeless. Manufacturing industry is now engaged in a desperate struggle in an effort to continue operations and provide jobs. Most industries have been operating at a loss for several years. Industry is not prepared at this time to accept the added burden as contemplated by this bill. There is considerable evidence that in some quarters industry is visualized in the terms of our largest business enterprises. It is well, therefore, to know that over 85 percent of the industries in Illinois employ less than 100 persons. Only 25 percent of the total number of corporations incorporated in Illinois, on the basis of the latest available figures, were capitalized for more than \$100,000. The great majority of the manufacturing firms in our State (and I believe the situation in Illinois in this respect is fairly representative of the conditions that obtain throughout the country) are relatively small, with limited financial resources, and they are therefore peculiarly susceptible to any disturbing influences, including especially increased tax burdens.

Industrial corporations represent the principal source of livelihood of a very large percentage of our total population. Accordingly, any legislative program which imposes unreasonable hardships on manufacturing industries will react to the detriment, directly or indirectly, of every taxpayer.

Several years ago, when the subject of unemployment insurance was under consideration by a special committee of the United States Senate, the Illinois Manufacturers Association made a careful study of this subject. This inquiry included a study of the experience of other countries with this form of insurance, the statistical basis for insurance of this character, the probability of relieving unemployment through such medium, and the potential tax burden which would be imposed upon industry if compulsory unemployment insurance, either Federal or State, were adopted. The conclusions then

arrived at are, I believe, pertinent to the consideration of the present measure. Some of the facts developed and conclusions arrived at at that time are as follows:

The experience of 19 countries having laws providing for unemployment insurance or subsidies was investigated. The experience of Germany and England is perhaps more representative of the probable experience of the United States under this form of insurance than would be the experience of other countries wherein this type of insurance has been in vogue.

Although the experience of Germany with unemployment insurance has been relatively short, the act having gone into effect October 1, 1927, their experience has been significant. At the time the act became effective insurance was based on a computation of 3 percent of the workers' wages, half to be paid by the employers and half by the workers. It was soon found, however, that the subsequent unemployment was more severe than was anticipated, with the result that during the 18 months during which the plan was in operation, or by March 31, 1929, the federal Government had made total loans to the insurance fund of approximately \$63,000,000. During the first 6 months of 1929 the contributions by the federal Government to the relief of unemployment were \$169,800,000. Approximately 17,000,000 industrial workers were covered by the German unemployment insurance. During the first 18 months experience, about 17,000,000 industrial workers were covered, and the expenditure per worker was \$33, or at the rate of \$22 per year.

Although much greater care was exercised in forming the German act than was true of a majority of the other countries in which this type of insurance has been invoked, Germany having full benefit of the experience of those countries, the financial status of the act has steadily grown worse, unemployment has materially increased and the whole plan has proved inadequate to cope with the problem.

A specific example of the manner in which the act is operated is furnished by the action of the German wholesale tobacco dealers, who are reported to have released 100,000 workers during a single month as a result of added taxes imposed by the Government on account of unemployment insurance.

The total expenditure on unemployment insurance in England during the 10-year period ending with the year 1929 was approximately \$3,250,000,000, or at the rate of \$325,000,000 a year, covering 12,000,000 workers, averaging about \$27 per year per worker. The contribution of the English Government to this unemployment insurance fund was approximately \$1,000,000,000 or at the rate of \$100,000,000 per year. This is exclusive of the expenditures of the Government for other forms of unemployment relief, which imposed an added burden of approximately \$400,000,000 on the English people during the same period.

The experience of European countries during the last year has been much more burdensome than during the 10-year period for which the above figures were taken. We have used the 10-year period ending with 1929, however, because the experience during that period is more fairly representative of the operation of this type of insurance in periods of normal employment.

The following principal results of the experience of European countries, particularly England and Germany, with compulsory unemployment insurance, may be noted:

First, that a tremendous and ever-increasing tax burden has been imposed on the citizens of those countries which in the instance of several of the countries and particularly England, has impaired the financial structure of the Government.

Second, that unemployment was not prevented—the number of unemployed in fact was greatly increased.

Third, that increased liberalization of the act and extension of benefits, removed the original insurance aspect and caused the plan to become dissipated into a system of doles.

Fourth, that the administrative expense increased out of all proportion to the benefits extended.

Fifth, that demands for public charity in all other forms of poor relief have vastly increased since the adoption of the public unemployment insurance program.

Sixth, that the socialistic tendencies involved in the system have influenced other objectionable forms of governmental regulation of private business.

Seventh, that this form of insurance invariably led to political abuses, the party in power being influenced more often by the effect of the dole policy upon voters than upon the real welfare of the Nation.

Eighth, that it ruined the public morale and initiative by establishing a vast army of nonworkers who make no attempts to secure work and regard the dole as their inalienable right. The ideal that dangled before the youth of Great Britain was not work but compensated idleness.

Ninth, that it has reduced the opportunities for employment by stifling industrial development and driving capital from the countries where it is in vogue.

Finally, that when unemployment insurance first was established in England in 1911 it had an actuarial basis. The first serious industrial depression in England following the World War produced such a volume of unemployment that the actuarial basis vanished, never to return. When the dole originally was imposed upon the British public, discretionary powers were vested in the administrators of the act. Owing to the political pressure of the Labor Party, by 1930 the last restrictions were swept away and the benefits became payable as a right. Instead of claimants being required to give proof of effort to secure employment, the Government was compelled to show whether or not the claimant could secure work. As a result of this state of affairs almost the entire working force of England took a vacation at the expense of the tottering treasury.

All insurance must have an accurate statistical background. Unemployment has no accurate statistical background. There is no general stability of employment in all occupations in all communities. Fluctuating economic conditions, widely varying types of industries, geographical distribution of both population and industries, seasonal demands, caprices of the buying public, the creation of new products, the discarding of old ones, and new inventions have as yet no possibilities for even approximate standardization nor for statistics that approach probability. There is no general stability of competence or proficiency for all workers or for all employers. The human elements of ability, endeavor and vision of employees and employers have not been measured. A plan to compensate those exposed to

the dangers of unemployment in these widely diversified conditions of economics and human abilities has no actuarial reality. The money allotments made must be classed as doles.

A number of representative American industries, as well as some of the larger insurance companies, are now making extensive experiments and studies of voluntary unemployment insurance, and it is hoped that the information thus developed may enable American industry to proceed from a sound, statistical premise in the further consideration of this subject.

Mr. LEWIS. Mr. Donnelly, does not that all come to this, that because we can not do it perfectly we should not do it at all?

Mr. DONNELLY. Yes, sir.

Mr. LEWIS. And if you were to call this, not unemployment insurance but limited unemployment insurance, would not the objective be better described?

Mr. DONNELLY. No. I think that unless your premise is correct, unless your foundation, upon which you are to build, is sound, your superstructure is bound to be faulty, no matter by what name you may describe it.

Mr. LEWIS. If as to fire insurance we were to accept a statement that because we can not do it perfectly, we will not do it at all, that because one in a hundred or one in a thousand, who are criminals, through arson can obtain the value for the property to which they are not entitled, that we are going to defeat the whole fire insurance system, would not that be a similar proposition?

Mr. DONNELLY. Were you through, Mr. Chairman?

Mr. LEWIS. Well, what I mean is that the degree of pathology and high degree of imperfection must obtain on social measures that are not in chemistry, that are not in physics, that are not in mechanics. Take malingering—I have not yet had the good fortune to find any institution that is not abused.

Mr. DONNELLY. Do I understand that you are drawing a comparison between fire insurance and so-called unemployment insurance from a statistical standpoint?

Mr. LEWIS. Well, I think that the argument against it—let us suppose that there were no fire insurance in the United States, as there is virtually no unemployment insurance or indemnification, and the State, considering the necessity for action, were proposing to adopt a system of fire insurance; it could be urged against such a proposal that many men, policyholders, would be burning down their properties to secure values to which they were not entitled. That, of course, strikes you emotionally all over; but would it be an answer to the argument for fire insurance of some kind? Now, you prove the malingering, that there is some malingering under these systems. Of course that strikes you emotionally and makes a most unfavorable impression. But is it an answer as to the 90 percent of the cases or the 95 percent of the cases that represent real need, for which they are not responsible, and in which malingering would not be involved?

Mr. DONNELLY. Of course, if I would grant that the number of cases in which there would be malingering would be limited to 5 percent of the total, then I could go along with your reasoning with regard to the practicability of this program; but I question whether or not you are warranted altogether in considering that it would be limited to that percentage.

Mr. LEWIS. Have you any figures as to that?

Mr. DONNELLY. No; except that, as I have just indicated, the experience of all other countries, the experience in Europe and in all other countries, has all indicated the futility of this program, as regards its utility for relieving unemployment; and I think that the real reason for that is the fact that unemployment is not capable of being reduced to any statistical basis, like workmen's compensation insurance or fire insurance or life insurance or any of the other hazards which we normally term insurable.

I assume that the proponents of this measure represent that the pay-roll tax contemplated by the bill will be uniformly distributed over all employers and that, accordingly, the employer will be in a position to pass the tax on to the consumer and that, consequently, the burden will be equally distributed and no competitive advantage will result. This is academic reasoning not substantiated by the practical experience of productive enterprise. The ability of a manufacturer to pass on to the consumer any element in the cost of production or distribution is necessarily limited by the willingness of the consumer to buy. If the cost of a given article becomes unduly high the consumer will either look for substitutes or reduce the amount of his requirements. Moreover, some employers are better equipped financially than their competitors to absorb additions in the cost of production or distribution. The universal experience of manufacturing industry demonstrates that uneconomic increases in the cost of production eventually result in a decrease in consumption, with a resulting increase in the opportunities for employment.

This measure, designed to relieve unemployment, would, it is submitted, in actual operation tend eventually to aggravate unemployment. Industry in Illinois has cooperated generously with the recovery program, although conformity to many of the mandates of the National Industrial Recovery Act and other governmental agencies has imposed many unprecedented burdens. Productive enterprise, however, cannot, without the grave likelihood of universal paralysis, be subjected to additional legislation involving social reform, particularly when experience and common sense indicate the futility of many of these reform measures as methods for improving or correcting our economic ills.

The best means to accomplish a reduction in unemployment is to adopt a program which contemplates a minimum amount of regulation and legislation and which is calculated to inspire confidence, to stimulate private initiative, and to encourage private enterprise.

In conclusion, let me say that the Illinois Manufacturers' Association is unqualifiedly opposed to every form of public or compulsory unemployment insurance for the reasons that there is no dependable statistical background available at the present time for this type of insurance.

Second. The basis of contribution by the employer would be largely influenced by political instead of economic considerations.

Third. It would impose an unbearable tax burden on productive enterprise at a time when industrial recovery is already seriously retarded by undue taxation.

Fourth. It would increase unemployment by aggravating the very conditions which it is attempting to correct, by crippling the agencies which furnish opportunities for employment, by discouraging efforts to relieve unemployment, and by placing a premium on idleness.

Fifth. It would result in further and unnecessary intrusion of the Government into the domain of private enterprise, thus aggravating the hardships which have already been caused industry by extensive governmental regulations, restrictions, and competition.

Sixth. It would materially increase taxation of industry at a time when an unprecedented increase in governmental costs has so burdened productive industry that opportunities for employment are already seriously impaired.

Seventh. It would undermine the fabric of our economic and social life by destroying initiative, discouraging thrift, and stifling individual responsibility.

And, eighth, and finally, it is paternalistic and incompatible with our fundamental conception of democracy.

I thank you.

Mr. LEWIS. Mr. Frear? Mr. Reed?

Mr. REED. You offered 10 objections, urged against the bill. Let me suggest this. I do not know how much we differ as to all of those in our viewpoints. We are trying to learn from you in regard to it.

Mr. DONNELLY. Yes, sir.

Mr. FREAR. You say that you represent the Illinois Manufacturers Association, a large one, undoubtedly; you say they have 2,500 members. Now, what proportion of those members would come under this bill, as proposed, with 10 or more people? You spoke of a limited number of those industries that would employ as many as a hundred. How many would have 10 or more employees?

Mr. DONNELLY. I would say that at least 90 percent, probably 95 percent, of our membership would employ 10 or more persons. The manufacturer employing 10 or less is a very small manufacturer.

Mr. REED. You spoke of England and said that the English law had proven very unsatisfactory; and you implied that it had been abandoned. Is that correct?

Mr. DONNELLY. As I indicated, the association made a very careful study of this subject at the time when the unemployment insurance bill was up in the Senate, which, I think, was about 2 years ago. Conditions have somewhat changed in those countries since that time. I stated the experience of other countries prior to 1931 simply as evidence of what I claim to be the impracticability of the principle involved.

Mr. REED. Have they abandoned the proposal in any of those countries, or all?

Mr. DONNELLY. I do not believe they have insofar as the principle is concerned, although I am not entirely prepared to answer that question. It has broken down and proven inadequate and become a mere system of doles.

Mr. REED. Do you know anything about the payment of relief funds, or this insurance, in Great Britain?

Mr. DONNELLY. I am not prepared to answer that question insofar as it pertains to the present situation in England.

Mr. REED. What became of the bill that was before the Senate committee at that time? You appeared there, did you?

Mr. DONNELLY. Yes; I appeared before that committee; and, as I recall that situation, that bill was unfavorably reported, although I am not absolutely certain. At any rate, it was never given consideration on the floor of the Senate.

Mr. LEWIS. Detailed references were made to that last night, Mr. Reed, which you will find in the record.

Mr. REED. Thank you. That is all, as far as I am concerned.

Mr. LEWIS. You say that one of your conclusions was that no form of public unemployment insurance would fall within the approval of your association? That is one of your statements?

Mr. DONNELLY. Yes, sir.

Mr. LEWIS. How about the poorhouse? Would you close the poorhouse doors? You would not consider that?

Mr. DONNELLY. No, sir. I am dealing with the subject matter of more or less universal insurance, so-called "unemployment insurance."

Mr. LEWIS. We thank you very much.

Mr. DONNELLY. Thank you very much.

Mr. LEWIS. Mr. Eliot, did you wish to make a statement?

Mr. ELIOT. I have a brief statement to make.

Mr. LEWIS. You may proceed.

STATEMENT OF THOMAS H. ELIOT, ASSOCIATE SOLICITOR, DEPARTMENT OF LABOR

Mr. ELIOT. My name is Thomas H. Eliot and I am Associate Solicitor of the Department of Labor.

Mr. Chairman, I should like first to say that in appearing before your committee I am trying to be as impartial as I can and to appear as someone familiar with the technical details rather than as a proponent or opponent of this measure. I hope it will pass, but I will try to keep my testimony as impartial as possible.

I should like to point out one or two statements made last night by Mr. Gall, and endorsed or repeated here today by two or three witnesses, in which Mr. Gall was unintentionally in error.

First, he said that he had read all the cases on the point of the constitutionality of this bill, and that each time the Supreme Court decided that the use of the Federal taxing power was unconstitutional. Mr. Gall was in error, because, apparently, he had not read the case most closely in point, if the constitutionality of this bill comes up for consideration in the future. That is the case of Florida against Mellon, a case which I am sure Congressman Frear is familiar with, because it upheld the validity of the Federal Estate Tax Act of 1926, which embodied the principle, which I think Congressman Frear, perhaps, originated, the principle of allowing an offset, just as this bill does, for money paid to the various States under State inheritance tax laws. That Federal Estate Tax Act was passed with the express purpose of causing Florida and one or two other States to pass such a law. The purpose of the bill was most decidedly to promote and encourage State taxing action.

Mr. LEWIS. That is, that the Federal Government can impose an inheritance tax upon all the people of the United States and in the act imposing that tax make provision that the estates of the decedents can take credit on that tax, for any payments made to the States, up to a given limit, under State acts imposing inheritance taxes?

Mr. ELIOT. Yes, sir; and the idea was that a situation existed where Florida was apparently attracting large estates, or rich people

who might leave large estates, down there by advertising that there was no estate tax in Florida, thereby depriving other States of such taxable resources.

Mr. FREAR. They had to change their constitution, which forbade inheritance taxes?

Mr. ELIOT. Florida came up to Washington and said that not only was the United States Government trying to force them to amend a law, but it was trying to force them to amend their constitution. They plead, therefore, that Congress was going beyond its constitutional powers in enacting that provision. The Supreme Court decided unanimously in favor of the constitutionality of the act, and the opinion was written by Mr. Justice Sutherland, one of the so-called "conservative" members of the Court.

I bring this case to your attention in order to fill out the record of the cases cited by Mr. Gall last night.

Mr. LEWIS. In that case it was argued that the imposition of the tax went directly to a public purpose, the maintenance of government in Florida?

Mr. ELIOT. Yes, sir.

Mr. LEWIS. If relief for people in distress, the victims of unemployment and disemployment, is in fact a public purpose, just like the poorhouse, paying the sheriff or recompensing the judge, would it be your view that the principles of application are identical in both measures?

Mr. ELIOT. Yes; it would be, sir; and certainly in the various States it has been true that the provisions against distress and famine and starvation and for public relief are within the powers of the States.

Mr. LEWIS. Now, have you studied the subject with a view to submitting a brief covering it? Have you a brief?

Mr. ELIOT. I have here a brief, which I can submit for the record.

Mr. LEWIS. Perhaps the members of the committee would care to ask you some questions, if you care to indicate the points in a general way.

Mr. ELIOT. That is the chief point, which I have here gone into, the general subject which was gone into by Mr. Gall, with reference to the imposition of an excise tax to effect the purposes of this bill. I have pointed out that the provisions of the Federal act in the case most closely in point were upheld, in spite of the charge that they were interfering with the States.

I also, I think, have validly distinguished the cases which were cited by Mr. Gall last night, particularly the child-labor tax case, on the ground that there the tax was very distinctly levied for the purpose of providing a penalty and punishment for any employer in a State who employed a child. The tax was 10 percent of the income of that employer, regardless of whether he employed one child or a thousand children. It had no relation to the magnitude of the number of children that he did employ, and it was not designed to encourage anybody to do anything worth while. It was designed to be a penal, criminal measure; and the Supreme Court decided that this was not a tax, that it was really a fine of 10 percent of income imposed upon any individual employer who employed a child, that that was a matter of criminal law which should be left to the States, and that, therefore, the tax was unconstitutional.

I think the difference between that approach and the approach in the present bill is obvious to all.

Mr. Chairman, if I may, I should like to point out one other thing particularly for the benefit of Congressman Frear, because he has asked about it.

Last night, Mr. Gall mentioned here, and emphasized at some length, the fact—as he put it as a fact—that the Wisconsin Act would not be certified under the Wagner-Lewis bill; and it was repeated today, that Wisconsin could not qualify because insurance companies are allowed to operate there. Since that time I have been in communication with Dr. Altmeyer, who testified before this committee last Saturday and who is secretary of the Wisconsin commission charged with enforcing the Wisconsin Act, and he assured me again that the Wisconsin Act does not, as the witness here today claimed, provide for insurance liability for benefit payments from private insurance companies. Mr. Gall said it did, and I think one of the witnesses today said it did. Actually, the law itself and an opinion by the attorney general in Wisconsin, Dr. Altmeyer says, prevent private insurance companies from entering this field. I think for the sake of the record that point should be remembered.

Mr. FREAR: Could you tell me, on that line, the point Mr. Douglas made when he said he objected to the Wisconsin law?

Mr. ELIOT. Mr. Douglas' feeling is that all the employers in the State should pool their funds with other contributions from employees into a single, central fund, because that would make for a larger, more substantial, and more secure fund. The Wisconsin theory, which has been adopted wholeheartedly in the King report in Massachusetts, is that it should be done by the individual employers.

Mr. FREAR. The individual employer in the same line of industry?

Mr. ELIOT. No; each individual employer.

Mr. FREAR. Will that provide a fund sufficient in each case?

Mr. ELIOT. They mean to build up the fund in Wisconsin to \$75 per employee. That is a pretty small sum if they have prolonged unemployment. Of course, if they have prolonged unemployment, the fund is diminished. The Wisconsin benefits are pretty small; they had to be. It was the 2-percent rate law, but that was passed because of the argument that business would leave Wisconsin if the rates were made higher.

Mr. FREAR. If this bill were made a law at 5 percent, Wisconsin would necessarily have to raise its rate to 5 percent; would it?

Mr. ELIOT. If they did not raise it, they would be keeping 2 percent at home and sending 3 percent here.

Mr. FREAR. Yes.

I have been interested, particularly, in some of the questions here distinguishing between the State tax, for instance, or a positive tax like that, which is very easily determined and levied, and this suggestion of providing insurance along this liquor line, as has been proposed here; and I am not sure about the experience of Wisconsin.

Is there any particular difficulty in imposing this tax and in providing for this payment?

Mr. ELIOT. It not only has not been running long enough, but it has not begun to run. It has been postponed by legislative fiat until July 1 next. It was supposed to come into effect July 1, 1933; and then the Governor, acting under legislative authority, postponed

it until July 1, 1934; and the Wisconsin Legislature decided that the insurance system should begin on July 1, next.

Mr. FREAR. Has the tax been levied?

Mr. ELIOT. No.

Mr. FREAR. So the insurance will not take place until the tax is levied?

Mr. ELIOT. One year after the beginning of the contributions.

Mr. FREAR. Suppose this tax of 2 percent or 5 percent, or whatever it may be, is levied and there seems to be a partial closing of industry there. What happens?

Mr. ELIOT. That is another weakness of the Wisconsin system that Mr. Douglas urges be removed. If the business closes up, the employees are likely to get left. Of course, the fund that has been raised is entirely for their benefit and no one else's.

I can provide you with a copy of the Wisconsin Act.

Mr. FREAR. I was inquiring as to the workings of it from the law as you understand it.

Mr. ELIOT. That is a question I have often heard raised against the Wisconsin system.

Mr. FREAR. I did not inquire particularly from Miss Perkins or the other witnesses that first day in regard to these other insurance provisions in the other countries.

Now, is the English law in existence today?

Mr. ELIOT. Oh, certainly.

Mr. FREAR. Are they working under it?

Mr. ELIOT. Most decidedly; yes, sir.

Mr. FREAR. Is there a fund provided?

Mr. ELIOT. Yes, sir; not only is there a fund, but, although the fund was inadequate to meet the needs of all those out of employment during the long period of depression, it must be remembered that the fund has at all times paid its interest on time.

Mr. FREAR. Paid its interest?

Mr. ELIOT. Yes; it has had to borrow.

Mr. FREAR. Borrow out of the additional taxes?

Mr. ELIOT. Borrow from the Government.

Mr. FREAR. But this system we are concerned with would be on a basis of taxation?

Mr. ELIOT. Well, each State would figure out what it wants. If they set up a State system, it does not necessarily have to be called a tax.

Mr. FREAR. What is the situation in other countries in addition to England? Are other countries maintaining unemployment insurance?

Mr. ELIOT. Yes, sir; quite a number of them. However, I think Mr. Epstein and quite a number of others who are real students of the subject have incorporated that matter in the record, referring to Denmark, Germany, and so forth.

Mr. FREAR. What is the experience in Denmark?

Mr. ELIOT. So far as I know, they have had real success; but I do not pretend to be qualified as an expert on foreign systems.

Mr. FREAR. You are speaking on just what information you have?

Mr. ELIOT. Yes.

May I say, further, that I have been in consultation with lawyers in the Bureau of Internal Revenue, and that they are adding a few

points, chiefly of verbiage, which they feel they want to have cleared up. They have talked to me about them with that in mind, and if I can be of any aid to you in making any of these small changes in form, I shall be glad to do so.

Mr. LEWIS. You will collaborate in the preparation of the bill?

Mr. ELIOT. Yes, sir.

Mr. COOPER. I understand you to state you are associate solicitor for the Department of Labor?

Mr. ELIOT. Yes, sir. I was called, I think, senior attorney; but I told the solicitor that "senior attorney" seemed to be an inappropriate title in view of my age.

Mr. COOPER. Do you mind telling me your age?

Mr. ELIOT. Twenty-six.

Mr. COOPER. "Senior attorney", I agree with you, would probably imply that you are older than you are.

How long have you been with the Department of Labor?

Mr. ELIOT. Not quite a year.

Mr. COOPER. What has been your experience?

Mr. ELIOT. I had been a practicing attorney for one year in Buffalo, N.Y.

Mr. COOPER. You were 1 year in Buffalo before you came here?

Mr. ELIOT. Yes.

Mr. COOPER. Now, I understand you to say you had participated in the preparation of this bill?

Mr. ELIOT. I had a comparatively humble part in its preparation, but I did sit in on various conferences and helped Mr. Lewis and Senator Wagner and Miss Perkins with the preparation of this bill.

Mr. COOPER. I wonder if you would be kind enough to give us a brief explanation of this bill and its operations.

Mr. ELIOT. A brief statement of what this bill is intended to do?

Mr. COOPER. Yes.

Mr. ELIOT. I think I could do that very briefly, Mr. Cooper.

The bill is intended to raise revenue by imposing a tax on employers. The feeling is that the Federal Government, the State and local relief systems having broken down, has in the last 2 or 3 years had to bear the chief burden of unemployment relief, and that to reimburse that Government for the vast expenditures it has made and is continuing to make, it is proper to levy this tax with the realization that although the money that will be collected by the tax is not earmarked, nevertheless it will be filling up a hole in the coffers of the Treasury here that has been made by the vast expenditures of recent years.

The other idea is that the Federal Government would prefer to have the unemployed get their relief and look for their help from their own local communities, and if possible to look for the relief from a regularly established agency. Therefore an offset is allowed against this tax for any amount an employer pays to an unemployment insurance fund in a particular State which has passed a State law providing for the creation of such funds. In that way the Federal Government will not need so much money to care for the unemployed in that State, and, not only that, but the denizens of that State will be looking to a regularly established fund instead of to the rather catch-as-catch-can private charity or the public funds which in so many localities have been seriously impaired.

That, I think, is the justification for allowing an offset from this tax. We cannot allow an offset without an assurance that the employer is really putting his money into something that will benefit the unemployed. He cannot just put the money into a stocking and say, "I am making regular contributions and am benefiting the unemployed", and thus escape an unemployment tax. That is why we have had the requirements which must necessarily be met before any remittances are allowed.

Mr. COOPER. You mean that the Secretary of Labor has to certify that the State law enacted meets these requirements specified in the Federal act?

Mr. ELIOT. That is exactly it, sir. The requirements are very few and are designed to make it very certain that the funds raised will be used for the benefit of the unemployed. But the States are not only allowed to choose between the Wisconsin scheme that we have just mentioned or the State-wide pooled fund that has been described, or any other scheme they can devise—not only that, but they are allowed to state who are eligible to receive benefits, what kind of unemployed persons are eligible to receive benefits, and they are allowed to suggest the form in which the payments shall be made. It can cover employers of as few as 3 or stop at 20. They can make any length of waiting period between the date of the commencement of unemployment and the date when the unemployed man begins to receive benefits. They can make it 2 weeks or 10 weeks. I think we can have faith that the State legislatures will act in good faith, and for that reason the minimum requirements are few and far between; but there are these 6 or 8 requirements sufficient to block up the obvious loopholes.

These are the fundamentals of the bill. But I repeat that Miss Perkins and Mr. Hopkins emphasized that they did not consider this any panacea and did not think that any other type of relief will be unnecessary.

That meets, I think, the objections of the gentleman who spoke this morning when he said that the British system had broken down. All he meant was that the unemployment insurance was not enough to take care of everybody, and they had to get relief funds.

Miss Perkins and Mr. Hopkins also said that in times of deep depression, further funds will be necessary.

Mr. FREAR. How does this dole system compare with the insurance system?

Mr. ELIOT. Of course, in recent years it has been confused, because part of it is unemployment insurance and part of it is the hand-out relief dole. From the first the newspapers, when unable to cope with the amount of space that the words "unemployment insurance" took up in the headlines, called it "dole." That is all the British dole in 1920 amounted to.

Mr. FREAR. Well, speaking from personal experience, I sat on a bench and talked with a man who was cited for bravery in the war; and he said he would not accept the dole. I asked why, and he said it had become a public scandal, where several families banded together and, because of that, would not have to work. I do not know whether it was called unemployment insurance. I asked him what his work was, and he said he was an auditor on the Manchester Canal, but would be glad to get a job of porter anywhere.

Mr. ELIOT. I agree with that. They all called it a dole; and I agree, further, that the system of unemployment exchanges and unemployment offices charged with seeing whether these people are really unemployed, has to be first class and on the job all the time to prevent malingering and cheating.

Mr. FREAR. I am interested in some of the other questions brought up this morning.

Here is agriculture: It is suggested that the people in agriculture will look upon this as an immediate means of receiving a benefit and, consequently, they will be endeavoring to secure employment, and thereafter unemployment insurance, in the various cities.

Mr. ELIOT. Of course, I was struck, when he said that, with the remarkable contradiction with his previous remark that this would discourage employment in the States. That speaker was one of the newspaper witnesses.

Mr. FREAR. Yes.

Mr. ELIOT. He had just said that industry could not bear the tax, and the next moment he said people would come from the villages to the big cities to get employment. I do not see how he could reconcile those statements.

Mr. COOPER. I think I can see how that would be. They would be employed a while if they went to the cities, and then they would become unemployed and then receive the unemployment benefits.

Mr. ELIOT. Of course, they would not be employed more than a little while under those conditions. Their unemployment benefits would last only a few months, at most.

Mr. COOPER. Well, as long as he remains in agriculture, he does not have any insurable status, because he is outside of the bill.

Mr. FREAR. What is the opinion on the fact that, if adopted, the measure will operate so as to have the Federal Government throw this back and compel the States to adopt the plan as suggested by the Federal Government, using the authority and control of the Federal Government? What is your thought on that?

Mr. ELIOT. I only have this thought: They must have made that same argument when the offset device of the estate tax was first suggested. As you know, that device has not been made use of in legislation for Federal aid in old age pensions, which is the other big Federal aid measure before this Congress.

Mr. FREAR. It does not provide that the tax shall come to the Federal Government and then go back to the States?

Mr. ELIOT. The old age pension bill is a straight Federal-aid scheme like the road-building scheme—a dollar for \$2.

Mr. FREAR. Is there anything else that has been testified to, or any suggestions that you care to answer?

Mr. ELIOT. No, sir; I feel that most of the remarks have been answered.

I might say that the man who testified about the transit business, Mr. Barta, and the man representing small newspapers, Mr. Allen, with whom I had a good deal of conversation—my fellow-State man, from Brookline, Mass.; I came from Massachusetts originally, although I then went to Buffalo—stated that their business was very stable and they had very little unemployment. I think that is probably very true of the small-town newspaper; if they keep in business at all, they keep employing about the same number of

people. Most unemployment plans which have been provided in the States provide that after the employer has had very little unemployment in his business for 2 or 3 years—that is in the Ohio plan—he stops contributing.

Mr. LEWIS. Could they do that under the provisions of this bill?

Mr. ELIOT. Yes; but, as you know, the bill does not now state that in clear terms so as to be understood by everyone, and I am now hard at work in attempting to clarify that. We do not want to penalize the man who does not have such problems.

Mr. FREAR. That is, you would have the Federal law meet the limitations of the State law?

Mr. ELIOT. The intention is to allow the employer an offset not only according to the actual cash that he has paid, but also according to the amount that his contributions have been in excess of the amount required and the fact that he has built up a substantial unemployment fund.

Mr. LEWIS. For instance, if I were employing 10 persons and came under the provisions of the act, and the Legislature of Maryland were to say, "Mr. Lewis, when you have accumulated \$750, your tax is paid," accordingly, on that very day, I could file a guarantee of \$750, and have my obligation discharged, and no tax would be laid?

Mr. ELIOT. That would be so, sir.

Mr. LEWIS. I only use that as an illustration.

Mr. ELIOT. It is a good illustration. However, there is one thing that I must mention, and that is that you are presuming that the Federal tax is 5 percent and the amount of pay roll you put into your fund is 5 percent.

Mr. LEWIS. Yes.

Mr. ELIOT. Then your tax is offset and thereafter, if you keep your pay roll up, you do not have to pay contributions.

Mr. LEWIS. What is the difference?

Mr. ELIOT. Then, take Massachusetts, from which this newspaper man came. Let us say they pass a State law there requiring every employer to provide 5 percent of his pay roll until he builds up a fund of \$100 per employee. This man owning the newspaper in Brookline pays 5 percent of the pay roll the first year and it amounts to \$100 per employee. The next year the State says:

Why, yes; you have a good fund and you have not had anyone unemployed so as to diminish your fund by getting benefits from it. You do not have to pay any more into your fund until it gets low because of unemployment in your plant.

That being so, the Federal Government will not collect taxes from that man.

Mr. FREAR. What is the object in fixing the tax at 5 percent?

Mr. ELIOT. The 5 percent was, as the Secretary testified, a matter of guesswork, I think. They all felt from the studies that had been made that 2 percent would raise a fund which would only entitle a worker to a small amount of benefits—so small that some felt the amount of relief it would give would be too small in contrast to the wages the man had been earning.

Most of the bills, as Mr. Andrews testified, provide for 3 percent. The New York bills, I think, are all 3 percent, the ones that are now being fought for in Albany.

Mr. FREAR. Did you discuss this with the employers of industrial workers?

Mr. ELIOT. Yes; with several of them. Mr. Swope testified. He felt that 5 percent was too high; he later said that 2 percent was more reasonable, and that industry could stand a 2 percent tax.

Mr. Filene, of Boston, whose business is the operation of a number of department stores, where the percentage of labor cost is rather high, said that industry could stand a 5-percent tax.

Mr. Draper, of Hills Bros., of New York, said industry could stand either 3 or 5 percent.

Mr. Folsom, of Eastman Kodak, said he favored 2 percent, partly because they had built up a fund in their plant at that rate.

The argument for going down as far as 2 percent was presented by several witnesses on the ground that the percentage in Wisconsin is as low as that; but it was that low because Wisconsin was being put to a competitive disadvantage by any law whatsoever, and that would be done away with by the passage of the Wagner bill.

Mr. FREAR. Has the question been raised at any time as to whether or not a time should be fixed in advance instead of at the time of the passage of the bill?

Mr. ELIOT. Yes, sir; the bill so provides. The taxable year would not even begin until July 1935, so that the first collection of the tax would not be made until July 1936.

Mr. REED. Mr. Lewis was just seeking information, and I, too, should like to know one or two things about these matters. I have not heard all of these proceedings because I have been engaged on the floor of the House.

Do you feel now that you have all the information you should have before starting off on a program of this kind?

Mr. ELIOT. Well, sir, the answer to that question, I think, is this: That sufficient studies have been made; the report, for instance, of the Senate committee 2 years ago came out in a volume about this thick [indicating].

Mr. REED. That is what I had in mind. It came out; but apparently, from the testimony, the Senate, after great study, seemed to have arrived at quite a different course of procedure than that we are here recommending.

Mr. ELIOT. At that time, Mr. Reed, I think that not only was there a more conservative philosophy abroad in the land, more inclined to let well enough alone, but the depth of the depression had not been reached; it was still being said that prosperity was just around the corner, and the feeling, I think, was influenced by the approach to the proposition. Even so the committee advised Federal assistance to unemployment insurance by income tax deductions.

Mr. COOPER. When was that investigation made?

Mr. ELIOT. Three years ago, I think it was.

Mr. COOPER. Who were the members of the committee?

Mr. ELIOT. They were Senators Hebert, Glenn, and Wagner.

Mr. COOPER. Over what period of time did the investigation extend?

Mr. ELIOT. I think they had hearings on at least 8 or 9 days. I guess that from the very voluminous report of the hearings which I have looked at.

Mr. COOPER. Did they have a bill under consideration?

Mr. ELIOT. I think Senator Wagner later introduced a bill, which would in effect contain provisions somewhat similar to this bill, providing for a deduction from income tax of payments to unemployment insurance.

Mr. COOPER. How did it happen that a bill pertaining to revenue could be handled by the Senate instead of by the House?

Mr. ELIOT. I am sure I do not know.

Mr. COOPER. I am trying to get information.

Mr. ELIOT. I think it was a Senate resolution passed merely to appoint a special committee to investigate the general problem of unemployment insurance. I do not believe the committee was trying to make a report. Senator Wagner did have that bill in mind; I think, as a matter of fact, that bill grew out of the testimony. I may be wrong, but I think the bill came after the hearings rather than before them.

Mr. COOPER. You mean the committee was appointed to hold extensive hearings to determine whether or not another committee should be appointed to investigate the facts?

Mr. ELIOT. No. This subcommittee was appointed to study unemployment insurance.

Mr. COOPER. The committee reported adversely?

Mr. ELIOT. The committee reported that income tax deductions be allowed and further study made. Senator Wagner dissented, and produced a bill which did not get anywhere.

Mr. REED. I think the record should show very clearly just what was done by the Senate and by our old Judiciary Committee, and upon what they based their findings.

Mr. COOPER. I think so, too.

Mr. LEWIS. The Judiciary Committee of the House?

Mr. REED. That is what I understood last night.

Mr. LEWIS. I did not understand so.

Mr. ELIOT. I remember that Mr. Gall was testifying about the first Child Labor Act back in 1915 or 1916.

Mr. REED. What I mean is that any information that Congress has already procured should be made available for this committee now, because this is a very important subject and if they have made definite findings we ought to have a record of it.

Mr. ELIOT. Mr. Lewis, may I answer Mr. Reed's earlier question more completely?

This bill, as I have said, does not really go into the kind of system that each State should set up, but the State commissions have made exhaustive reports. The Ohio commission was in session over a year, as Miss Magee, from Ohio, has testified, and went over the subject with great thoroughness. They published very exhaustive and interesting reports; usually the commissions have recommended specific legislation as a result of their studies. We have over a year, before this act gets into effect; and there are all these other States which will have the benefit of the very complete studies which have been made by seven of the States.

Mr. REED. These studies made by the States were purposely conducted as a basis for State legislation? They were not pointing towards Federal legislation, were they?

Mr. ELIOT. No, sir; but, of course, they went into the whole problem of European systems and everything else.

Mr. REED. Yes; that is right. But I was just looking at it from the Federal end of it, because we ought to know. If they were each investigating it from that view, this proposition might be a very different thing. You would have 48 laboratories, each working it out from the line of their particular industries and the general social set-up of those States; and what I am anxious to have now is to procure for the committee all possible information. Since we have started our work here, investigations by Congress have been made for which much money has been expended. All the information developed by these investigations should be presented to this subcommittee before the subject is considered by the full committee.

Mr. LEWIS. The reports were presented by Mr. Gall last night.

Mr. REED. However, if there is any further information, we ought to have it.

Mr. ELIOT. I think you can get hold of the report of the Senate committee. I do not think there has been an actual study of a Federal unemployment-insurance scheme, nor would such study be of benefit here.

Mr. LEWIS. The development of the matter would seem to be as follows: A number of States have come to the point of considering the enactment of State legislation to deal with unemployment relief; excepting one State, they have all concluded that they could not impose the burden on their manufacturers without developing disadvantages for them with relation to competitive manufacturers in States in which like burdens were not imposed.

Now the subject comes around to us because people, making that argument sincerely, of course, have driven the subject here; and what is proposed to be done here, in effect, is to pass an authorizing act or a qualifying act for the respective States.

Mr. FREAR. Would it not be useful to us to have the proposals of these seven States of which you speak? If we could have that information—not to enter into the record, of course, because it probably would be too voluminous—I think it would be proper to present it at the time we consider these measures.

Mr. ELIOT. Dr. Andrews, I think, has already sent a brief summary of the various bills introduced in 27 States. One witness today, incidentally, said that Wisconsin had a law and Massachusetts had a bill and that was all. He was unfortunately in error; there are 65 bills introduced in 27 States.

Mr. FREAR. What I desire is not so much the bills themselves as the information obtained of the workings of such plans.

Mr. ELIOT. I think I can bring the Ohio report, the Massachusetts report, the Wisconsin report, and some others.

Mr. COOPER. Mr. Lewis, may I ask one or two questions?

I understood you to draw a comparison between the subject under consideration here and that of the estate tax.

Mr. ELIOT. Yes, sir; as far as the constitutionality of the bill is concerned.

Mr. COOPER. Yes.

Now, as I recall, at the time the Federal estate tax legislation was passed, we had State tax laws on that subject in all the States of the Union except three. The law was then passed and the present system came into existence; that is correct, is it not?

Mr. ELIOT. Yes.

Mr. COOPER. Now, just looking at this problem for a moment from that viewpoint: On this subject now we have this type of legislation enacted in one State of the Union, have we?

Mr. ELIOT. Yes, sir; one.

Mr. COOPER. That is the State of Wisconsin.

Now, none of the other States has thus far enacted this type of legislation. What would be your view as to whether or not the country is now ready for this type of legislation, judging from the estate tax experience?

Mr. ELIOT. Well, I do not think the comparison is a useful one except insofar as the constitutionality argument is concerned. However, as a matter of policy I wish that I had the testimony of Dr. Andrews here before me. Quite a number of these bills in the various States have been passed by one House and failed by a small margin in the other; for instance, take Maryland last year. As Mr. Lewis said a moment ago, the argument that almost always sinks the bill in the second House is that you must not handicap any of the manufacturers of the State to the extent which this bill would handicap them; that if you had the provisions incorporated in similar bills in all the other States, it would not matter; but this way you will have driven industry out of the State.

Mr. COOPER. I am just trying to get information on the matter, and I believe you also said that the law had not actually gone into effect in Wisconsin.

Mr. ELIOT. The law has been passed; the operation of the law has been postponed, just as the operation of this law in this bill is to be postponed.

Mr. COOPER. It has not become effective?

Mr. ELIOT. It becomes effective in 3 months.

Mr. COOPER. The tax has not yet been levied or collected?

Mr. ELIOT. Not as yet.

Mr. COOPER. And there has been no experience under the actual operation of the act?

Mr. ELIOT. No, sir.

Mr. FREAR. Do you feel that if this bill or a similar bill should be passed, its passage would quickly bring the legislative bodies into line on some form of insurance?

Mr. ELIOT. I think it is likely, certainly so in those States which have come very close to passing unemployment-insurance bills, like Maryland and like Minnesota and Massachusetts, like New York, where it seems likely to get through even without the impetus given by this bill; and I may say, also, that the King bill in Massachusetts, at this time, seems very likely to go through, as Mr. Willard here testified last night.

Mr. REED. What tax is that?

Mr. ELIOT. Two percent; that is modeled after the Wisconsin law. If the tax were fixed at 3 percent, I think the majority of the States would act quite promptly—although that is guesswork on my part—and if I were an employer, I should be inclined, I think, to keep the money in the State instead of sending it to the Federal Government.

Mr. REED. But this would be practically forcing them into it. Do you think that would be preferable to the law in the other States?

Mr. ELIOT. I think so, because of two reasons: First, the argument about observing the workings of the law would mean a lengthy postponement: For instance, the Wisconsin benefits will not be paid until they have built up the funds—for instance, over a year and a half from now—and by that time the really good time to start the system, when business is getting better, will perhaps be gone. The other argument is that the States have been holding back not because of the desire to watch another State but chiefly because business was being driven out of Massachusetts, for instance, as they said.

Mr. FREAR. May I ask whether any of the national platforms last year contained allusions to this subject?

Mr. ELIOT. Yes, sir; the Democratic platform had a very short statement saying, "We favor unemployment insurance by State laws."

Mr. FREAR. In view of the fact that in these foreign countries the employees raise a part of the tax and in this country, so far as I can learn from what you say and what the other witnesses say, only 2 percent—and in one case, 3 percent—has been placed as the highest figure, what do you think would be the effect of putting a 5-percent tax or anything like that amount, on the general public?

Mr. ELIOT. Mr. Hutzler, from Baltimore, is the only witness who brought out a point that has bothered me a little. It is this: That if you have a 5-percent tax, you are rather discouraging the proponents of the joint contributions; because when you have a 5-percent tax, labor men—workers—are likely to say, "That is a good, big fund you are building up; we do not have to contribute."

Whereas in Ohio their bill has a 2-percent tax on employers, which would not build up a really adequate fund for substantial payment—and there the employees are to make general contributions at the rate, I think, of 1 percent of their pay. If you get up to 5 percent, I quite agree with Mr. Hutzler in believing that you are taking support away from the Ohio plan, because you are strengthening labor in their position in saying, "We do not have to contribute." Whereas, if you cut own to 3 percent, then labor says, "We want a bigger fund, and will contribute."

So the Ohio Federation of Labor is favoring the bill which contemplates employee contributions.

Mr. FREAR. What would be the effect of changing to the lower rate the 5-percent rate provided in this bill?

Mr. LEWIS. Could the minimum required by this bill be handled by a 3-percent tax in times of ordinary chronic unemployment?

Mr. ELIOT. I think perhaps it could. I believe that under the Wisconsin benefits, when you cut down to 2 percent—of course, this is all guesswork—the best they can do—is to obtain benefits of not more than \$10 for 10 or 12 weeks. The Wisconsin minimum is \$5 a week, but the benefit might be \$10 a week for only 10 or 12 weeks—and that is only a couple of months.

Mr. LEWIS. You mean that is the average of all of the State bills?

Mr. ELIOT. No; only Wisconsin.

Mr. LEWIS. About \$10 a week for 10 weeks?

Mr. ELIOT. Yes; \$8 or \$10 a week for 10 weeks, and the minimum is lower than that. I am going a little above the minimum. Therefore, I think that 2 percent would, perhaps, be discouragingly low; 3 percent would have more merit.

Mr. COCHRAN. Mr. Eliot, did you refer a moment ago to the State federation of labor in Wisconsin?

Mr. ELIOT. I meant to say Ohio.

Mr. COCHRAN. Did you say that federation is in favor of employee contributions?

Mr. ELIOT. Yes; it is favoring that bill out there, and the Wagner-Lewis bill. The State federation of labor in New York has recently been converted to favor the plan advanced here by Messrs. Epstein, Douglas, and others, for joint contributions.

Mr. COCHRAN. Joint contributions in equal amounts?

Mr. ELIOT. No; I do not think it provides for equal amounts; I think it is 2 to 1.

Mr. FREAR. I think that if you could get information from the other States, we might get some light on the matter that we should have.

Mr. LEWIS. Mr. Andrews has promised to place the information before us, and also provide a summary of their provisions.

Mr. ELIOT. He has promised to summarize it.

(The following statement was submitted by Mr. Eliot:)

This bill lays an excise tax on employers, the basic subject of the tax being the privilege of employing, and its measure being pay roll. Offsets are allowed for contributions under State laws. The excise tax, the measure thereof, and the offset provisions are all clearly constitutional.

The power to impose excise taxes is specifically granted to the Congress by article I, section 8 of the Constitution, and the all-inclusive nature of that power has been repeatedly affirmed by the Supreme Court. As Chief Justice Chase said in the case of *Veazie Bank v. Fenno* (8 Wall. 533 at 540):

"The general intent of the Constitution, however, seems plain. The General Government, administered by the Congress of the Confederation, had been reduced to the verge of impotency by the necessity of relying for revenue upon requisitions on the States, and it was a leading object in the adoption of the Constitution to relieve the Government, to be organized under it, from this necessity, and confer upon it ample power to provide revenue by the taxation of persons and property. And nothing is clearer, from the discussions in the convention and the discussions which preceded final ratification by the necessary number of States, than the purpose to give this power to Congress, as to the taxation of everything except exports, in its fullest extent.

"This purpose is apparent, also, from the terms in which the taxing power is granted. The power is 'to lay and collect taxes, duties, imposts, and excises, to pay the debt and provide for the common defense and general welfare of the United States.' More comprehensive words could not have been used. Exports only are by another provision excluded from its application. * * *

"And there are directions as to the mode of exercising the power. If Congress sees fit to impose a capitation, or other direct tax, it must be laid in proportion to the census; if Congress determines to impose duties, imposts, and excises, they must be uniform throughout the United States. These are not strictly limitations of power. They are rules prescribing the mode in which it shall be exercised. It still extends to every object of taxation, except exports, and may be applied to every object of taxation, to which it extends, in such measure as Congress may determine."

At other times the Supreme Court has upheld a great variety of excise taxes. In *Pacific Insurance Co. v. Soule* (7 Wall. 433, 443), it was observed:

"Congress may prescribe the basis, fix the rates, and require payment as it may deem proper. Within the limits of the Constitution it is supreme in its action. No power of supervision or control is lodged in either of the other departments of the Government."

And after referring to the express limitations as to uniformity and articles exported from any State, the court remarked (p. 446):

"With these exceptions, the exercise of the power is, in all respects, unfettered." So in the *License Tax Cases* (5 Wall. 462, 471), it was said:

"It is true that the power of Congress to tax is a very extensive power. It is given in the Constitution, with only one exception and only two qualifications.

Congress cannot tax exports, and it must impose direct taxes by the rule of apportionment, and indirect taxes by the rule of uniformity. Thus limited, and thus only, it reaches every subject, and may be exercised at discretion."

For other cases wherein excise taxes were upheld by the Court, see: *Knowlton v. Moore* (178 U.S. 41), *Patton v. Brady* (184 U.S. 608), *Thomas v. United States* (192 U.S. 363), *Spreeckles Sugar Refining Co. v. McClain* (192 U.S. 397), *Flint v. Stone Tracy Co.* (220 U.S. 108).

It is worthy of note that in 1923 Congress levied an excise tax on employing young children, and that while the tax was held invalid on other grounds, the Supreme Court found no fault with the idea of levying such an excise on such a subject. If Chief Justice Taft and the Supreme Court had believed that an excise on this subject was unconstitutional, they would have said so promptly and disposed of the case without further argument. Instead, they held the tax invalid for an entirely different reason, after long discussion and the distinguishing of a number of very similar cases. *Child Labor Tax Case* (259 U.S. 20).

It may be argued that inasmuch as certain employers are exempt from the tax in the present bill—small employers, farmers, and so forth—the tax is unequal and arbitrary. Such an argument can carry no weight. An exactly similar argument was disposed of in *Knowlton v. Moore* (178 U.S. 41), and in *Flint v. Stone Tracy Co.* (220 U.S. 108, at 158), where the Court said:

"But, it is insisted, this taxation is so unequal and arbitrary in the fact that it taxes a business when carried on by a corporation and exempts a similar business when carried on by a partnership or private individual as to place it beyond the authority conferred upon Congress. As we have seen, the only limitation upon the authority conferred is uniformity in laying the tax, and uniformity does not require the equal application of the tax to all persons or corporations who may come within its operation, but is limited to geographical uniformity throughout the United States. * * *

"In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation, to select one calling and omit another, to tax one class of property and to forbear to tax another."

See also *McCray v. United States* (195 U.S. 27), *Billings v. United States* (232 U.S. 261).

In the last case, at page 282, the Court, speaking through Chief Justice White, said:

"It has been conclusively determined that the requirement of uniformity which the Constitution imposes upon Congress in the levy of excise taxes is not an intrinsic uniformity, but merely a geographical one. *Flint v. Stone-Tracy Company* (220 U.S. 107); *McCray v. United States* (195 U.S. 27); *Knowlton v. Moore* (178 U.S. 41). It is also settled beyond dispute that the Constitution is not self-destructive. In other words, that the powers which it confers on the one hand it does not immediately take away on the other; that is to say, that the authority to tax which is given in express terms is not limited or restricted by the subsequent provisions of the Constitution or the amendments thereto, especially by the due process clause of the fifth amendment. *McCray v. United States* (195 U.S. 27 and authorities there cited)."

It is clear, then, that the excise tax itself is proper and that it does not violate the rule of uniformity, for it reaches all employers within a reasonable classification and bears equally upon them regardless of their geographical location.

The measure of the tax is the employer's pay roll. Whether the pay roll itself might be an immediate object of taxation need not be argued, for the Supreme Court has said that Congress may measure excise taxes by subjects which themselves may or may not be taxable. So in *Flint v. Stone Tracy Co.* *supra*, an excise tax on corporations measured by income was upheld, although at that time income was not taxable unless the tax was apportioned, and although the income itself included income from tax-exempt bonds. In two recent cases this doctrine has been reaffirmed and reapplied: *Educational Films Corp. v. Ward* (282 U.S. 379), *Pacific Co. v. Johnson* (285 U.S. 480).

See also *Kansas City, Fort Scott & Memphis Railway Co. v. Kansas* (240 U.S. 227), and *Cream of Wheat Co. v. Grand Forks* (253 U.S. 325), upholding State taxes on domestic corporations measured by corporate property, even when the property itself was outside the State and so not itself taxable by the State.

We come now to the effect which the offset provisions have upon the constitutionality of this bill. There is ample and strong authority making it abundantly clear that the tax, including the offset provisions, is valid.

It is valid even though the purpose of including these offset provisions is to effect other ends than the raising of revenue. There is nothing unconstitutional about levying a tax with the hope that the tax will not merely bring money into the Treasury, but will result in definite social gains. So in *McCray v. United States*, *supra*, the tax on oleomargarine colored to look like butter was partly for the purpose of raising revenue; but its underlying aim was to protect consumers and the makers and sellers of real butter. On its face it was an excise tax, and the Supreme Court upheld it with full knowledge of all the facts. *Billings v. United States*, *supra*, involved a tax on the use of foreign-built yachts, while domestic yachts were used tax-free. Obviously revenue was a minor object of that tax; it was a means of encouraging domestic yacht building. Similar examples of taxes with a social purpose are almost innumerable: suffice it to mention the taxes on liquor, lottery tickets, narcotics, etc.

The *Child Labor Tax Case*, *supra*, was decided on grounds that have no bearing here. There the excise was levied on the privilege of employing children, but the amount of the tax had really nothing to do with the employing of children. A flat 10-percent tax on net profits was imposed on every employer employing child labor. He may have employed one child or a thousand; his tax was the same. The measure of the tax was so obviously unconnected with the subject of the tax that the Court decided that it could not in fact be called an excise tax at all, but that it was really an act to penalize employers who employed a child. It was in effect a penal law, making employment of child labor virtually a crime. The present tax could not possibly be called penal; one of its purposes is, in fact, to benefit the working people, rather than to penalize their employment. The measure is adapted to the subject: no arbitrary tax is imposed on the act of employing, regardless of how many are employed, but rather the tax is measured so that amounts are paid proportionally, roughly, to the number employed. The child labor tax was an attempt by the Federal Government to punish something which most States had not called illegal. In the present tax there is no attempt made by the Federal Government to replace State action.

Of course it is true that one purpose of the present bill is to encourage the enactment of State unemployment insurance laws. The crediting, or offset, provisions are aimed to eliminate obstacles which have hitherto impeded the passage of such laws and possibly to give employers more of an incentive than heretofore to support such legislation.

It is equally true that this purpose of encouraging State action through allowing credits against the tax is constitutional.

Section 301 of the Revenue Act of 1926 (44 Stat. 9, 69-70), imposed certain graduated inheritance taxes subject to the following provision:

"The tax imposed by this section shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any State or Territory or the District of Columbia, in respect of any property included in the gross estate. The credit allowed by this subdivision shall not exceed 80 per centum of the tax imposed by this section, and shall include only such taxes as were actually paid and credit therefor claimed within three years after the filing of the return required by section 304."

The constitutionality of that provision was upheld in *Florida v. Mellon* (273 U.S. 12), in an opinion written by Mr. Justice Sutherland, and unanimously agreed to by the Court. Because the validity of the offset provisions in the present bill is premised on this decision, it is well to go more fully into the inheritance tax case.

As digested in the United States Reports, the brief for the State of Florida, claiming that the offset provisions were unconstitutional, read as follows:

"The Constitution never contemplated that Congress could pass an excise tax law which would depend upon affirmative action by the several States to make it uniform in force and effect. It requires that an excise tax law, within itself, shall be uniform throughout the United States.

"The estate-tax provision of the Revenue Act of 1926 was passed to coerce States into adopting estate or inheritance tax laws. If Congress could rebate 80 per centum, it could just as legally rebate 100 per centum of the tax, and the State not imposing a tax of this kind would be the only State paying such a tax to the Federal Government.

"Each State is supposed to raise revenue from the sources and in the manner most advantageous to itself, its citizens, and its business. These necessary taxes are bound to come from the earnings of its citizens in some form or other. One State may deem it to its advantage to raise a large part of this revenue from death duties, thus relieving other classes of its property and business from the burden.

Another may deem it to its advantage to raise its revenues from other sources than death duties. Yet each State imposes its burden on the earning power of its citizens. Florida raises her revenue from other sources than death duties and income taxes. A majority of the States have combined and intend to force Florida to pay death duties, or estate taxes, for the support of the United States Government, when these same death duties or estate taxes paid by other States go to pay the expenses of State governments. The Constitution never contemplated such a condition. The Federal Government has no power by taxation or otherwise to control the internal affairs of the State in any matter not in conflict with the powers delegated to the United States, or inhibited to the State, by the Constitution. *Texas v. White* (7 Wall. 700). The estate-tax provision was not passed for the purpose of raising Federal revenue. It was directed primarily at the State of Florida. It was not passed to obtain revenue from the tax-paying estates in Florida, but to nullify a constitutional provision of the State. *Pollock v. Farmers Loan & Trust Co.* (157 U.S. 429). * * *

"In the present case we have an act of Congress operative in Florida, against the will of the State and its citizens, to which obedience must be yielded, if it is constitutional. That act directly seeks and requires the removal from the State of property to the extent of several millions of dollars per annum. Its removal will diminish the revenues of the State. The act directly discriminates in its effect against the State of Florida, as compared with other States."

This brief speaks for itself. Here was the Federal Government not hoping that the States in general would pass laws, as in the present case, but specifically aiming at one State which had advertised the fact that it had no inheritance tax and had thus attracted many aged people and much property within its borders. Not only that, the imposition of an inheritance tax was at the time impossible in Florida because of a clause in the State constitution prohibiting it. The purpose of the offset provisions was to make Florida amend its constitution and tax decedents' estates.

And yet the Supreme Court unanimously upheld the offset provisions. Said Mr. Justice Sutherland:

"The contention that the Federal tax is not uniform because other States impose inheritance taxes while Florida does not, is without merit. Congress cannot accommodate its legislation to the conflicting or dissimilar laws of the several States nor control the diverse conditions to be found in the various States which necessarily work unlike results from the enforcement of the same tax. All that the Constitution (art. I, sec. 8, cl. 1) requires is that the law shall be uniform in the sense that by its provisions the rule of liability shall be the same in all parts of the United States."

In *Florida v. Mellon* we have a decision enabling us to reject without further argument the contention that the offset provisions in the present bill may be unconstitutional. In the Constitution itself and in many decisions of the Supreme Court interpreting it we find the power of the Congress validly to levy a tax such as the one proposed here. There is no need to argue that this is a time of emergency; there is no possibility of arguing that this is a temporary measure. As permanent legislation, its validity is secure. We need feel no doubts as to the constitutionality of the present bill.

BRIEF SUBMITTED BY EDWARD T. DEVINE, REPRESENTING NASSAU COUNTY CIVIL WORKS ADMINISTRATION OF NEW YORK STATE

My interest in unemployment insurance was first aroused when in 1910 or 1912—more than 20 years ago—I happened to be in England at the time when the government of the day was drafting its first bill. It was to include, I remember, only four leading industries, coal mining and ship building among others, because those four were the ones about which they thought they had sufficient information to serve as an actuarial basis for calculating the cost of the unemployment-insurance benefits.

During the last 2½ years I have had an opportunity in the administration of work-relief and civil works in Nassau County, N.Y., to get very vivid impressions and to formulate very definite views about the need for unemployment insurance in this country.

We must not deceive ourselves. What we need is not a new name for work relief or for home relief. What we need is insurance—a fund adequate in amount, accumulated in advance, and safely administered, to provide during a period of

enforced idleness in any industry. A substitute for wages, you may call it a dole if you like. If you do, that word will soon lose its disagreeable connotation, as it has in England. For it is not a dole in the sense which that suggests to our ears. It is a benefit, like an out-of-work benefit of a trade union, or an indemnity for a fire loss, or damage in an automobile accident, or a death benefit from a life insurance policy, or an annuity income earned by a previous payment. In other words it is insurance and not relief; and as far as this point is concerned it makes no difference whether the fund has been raised solely by contributions from employers, or jointly from employers and wage earners, or jointly from both together with a contribution by the State. In any case it is a legal claim, created by statute, and the receipt of it by the unemployed man or woman involves no stigma whatever. It is not a dole. The one who receives it is not a pauper; nor is he, in the more polite language of some of our present relief laws, a poor person in need of relief. He is simply an insured worker, drawing a compensation benefit while unemployed, as an implied if not expressed feature of his wage contract, as an incident of his status as a wage earner, for the time being unemployed.

I am not discussing, because it is not germane to the principle, the amount of the benefit, or the duration of it; the conditions, the safeguards, the waiting time, the administrative features, I simply testify that relief—even on the gigantic scale which we now witness—is not enough, and it is not the right way to meet the need.

Now this bill as I understand it is a recognition of the soundness of the unemployment insurance principle on the part of the Federal Government; a recognition of the national character of the normal competition in industry; a plan, and, I think, an excellent plan for preventing the penalizing of any State for the early adoption and the adequate maintenance of a sound progressive system of unemployment insurance. It imposes a tax on all employers with a pay roll of any significance and puts the result of that tax at the disposal of the State—if the State has a good insurance system. What could be simpler, more sensible, more equitable and just, and more calculated to expedite the rapid development of a good insurance system on a national scale?

LETTER FROM ELIOT A. CARTER, REPRESENTING NASHUA GUMMED & COATED PAPER CO., NASHUA, N.H.

NASHUA, N.H., March 16, 1934.

HON. DAVID J. LEWIS,
House Office Building, Washington, D. C.

DEAR CONGRESSMAN: I am much interested in the Wagner-Lewis unemployment reserve bill from two viewpoints—one as an official of a manufacturing concern, the other because of membership in a commission appointed by the Governor of New Hampshire to look into the problems of unemployment reserves. The opinions which I express in this letter are purely personal and in no way reflect any official viewpoint.

I am in sympathy in principle with unemployment reserves. I also believe that any Federal enactment which will cause States to generally adopt similar provisions is correct in this particular kind of legislation. Unless this were done it would place undue handicap on manufacturers or other employers in States which had legislation of this sort as against States which did not have such legislation.

In one important respect I am opposed to the provision of the bill. I believe that the tax of 5 percent is altogether too high. It should be borne in mind that the consumer will in the last analysis decide the limit to which manufacturers may go in increasing their cost. If by either Federal or State legislation, manufacturers are compelled through taxation to add too greatly to the cost of their products, such excess taxation will in the end defeat the purposes for which it was enacted. I need only remind you that during the past year through provisions of the N.R.A. and compensatory taxes imposed on many manufacturers for the benefit of agriculture, there has already been imposed a large increase in manufacturing expenses. I would estimate that our manufacturing costs, either because of these direct impositions on us or because of like impositions on our suppliers which have raised our raw material prices, have increased approximately 25 percent over those of a year ago.

As between a system of unemployment reserves and old-age pension for industry, I believe the latter would be ever so much more effective in solving the

unemployment problem. I think pensions would tend to take men who were not suited to work out of employment, where they would then be provided for, and leave more openings for younger persons. It would seem to me that by placing a tax of 5 percent on pay rolls for the purpose of unemployment reserve you are tending to make less possible of early fulfillment a plan for old-age pensions.

My suggestion would be that any employer who complied with a State law similar to the so-called Wisconsin act would be exempt from the proposed Federal tax. This act, as I understand, calls for a maximum of 2 percent of pay roll, but with a diminishing amount to be set aside provided the reserve of that employer was kept up to a certain standard.

Assuming that the unemployment reserve tax under the Federal act was kept down to these limits it would probably permit a Federal tax of approximately 3 percent on pay rolls for the purpose of establishing old-age pensions. This contribution, together with provision for a like contribution on the part of employees, should in the course of time provide adequate funds for a moderate system of pensions.

For reasons above stated, I hope that the limit of tax under the Wagner-Lewis bill will be substantially reduced.

Very truly yours,

NASHUA GUMMED & COATED PAPER CO.,
ELIOT A. CARTER, *Treasurer.*

LETTER FROM ELISABETH CHRISTMAN, REPRESENTING THE NATIONAL WOMEN'S TRADE UNION LEAGUE OF AMERICA

WASHINGTON, D.C., *March 24, 1934.*

HON. DAVID J. LEWIS,
House Office Building, Washington, D.C.

MY DEAR MR. LEWIS: The National Women's Trade Union League of America represents the organized working women of the country. Our membership numbers more than 500,000 persons, most of whom are wage earning women.

In the name of this large group of citizens we urge your committee to act favorably on the bill S. 2616 which will help to protect workers from the evils of unemployment.

For many years, the Women's Trade Union League has supported the principle of unemployment insurance. As workers we know from bitter experience the horrors of unemployment. Not only in the present emergency, but also in many periods considered normal, the fear of unemployment has hung over us. We have tried through voluntary organization to meet, in some measure, the suffering that unemployment brings to our membership.

Our best efforts have availed little before the magnitude of the task. No matter how great our will to work, how pressing our necessity to earn, most of us have known times when we could find no work, and when our personal and joint reserves were exhausted. We know that individuals cannot meet the evils of unemployment. The Nation must consider it a social responsibility.

It has always been the viewpoint of the league that relief of unemployment should not be an emergency measure but should be an integral part of a planned national economy. For the first time in our history we are on the way to organize such an economic plan. Our organization urges the passage of the present bill as a vital step toward a more humane and equitable social order.

The Women's Trade Union League recognizes the value of leaving legislative action such as this to the various States, but from our experience of many years in working for other necessary State laws, we know how slow this process is, and how varied the worth of the result. We wish to go on record as endorsing the bill now under consideration, as well as the principle of unemployment insurance, because we believe it vital that the Federal Government provide such impetus and control if unemployment insurance worthy of the name, is to become a reality.

Very respectfully yours,

ELISABETH CHRISTMAN,
Secretary-Treasurer.

(Thereupon, at 4:30 p.m., the subcommittee adjourned, subject to call of the chairman.)